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Benefits Programs

Disability Compensation

This appropriation provides for the payment of compensation benefits to disabled veterans, certain survivors, and eligible dependent children.

Compensation benefits are an entitlement paid either as a disability or a survivorship benefit. Compensation is payable to living veterans who have suffered impairment of earning power from service-connected disabilities. Eligibility criteria for veterans are based upon disabilities either incurred in or aggravated during active military service. The amount of the compensation to the veteran is based upon the disability or combination of disabilities and their impact on earning capacity. Survivors are eligible for benefits if the veteran died while on active duty, or died as a result of disabilities incurred while on active duty. This benefit is intended to compensate for the loss of family income. A clothing allowance is also provided for service-connected veterans who use a prescribed medication for a service-connected skin condition that stains their clothing or use a prosthetic or orthopedic appliance, which tends to wear out or tear the clothing of such veteran.

Program Description

Disability Compensation is provided to veterans for disabilities incurred or aggravated while on active duty. The amount of compensation is based on the degree of disability. Several ancillary benefits are also available to certain severely disabled veterans.

Dependency and Indemnity Compensation (DIC) is provided for surviving spouses, dependent children, and dependent parents of veterans who died of service-connected causes or while on active duty on or after January 1, 1957. Prior to January 1, 1957, death compensation was the benefit payable to survivors.

Spina Bifida Monthly Allowance under 38 U.S.C. 1805 is provided for children born with spina bifida who are children of individuals who served in the Republic of Vietnam during the Vietnam era or served in or near the demilitarized zone in Korea from September 1, 1967 to August 31, 1971. Payment is made at one of three levels and is based on degree of disability suffered by the child.

Children of Women Vietnam Veterans Born with Certain Defects provides a monetary allowance, healthcare, and vocational training benefits to eligible children born to women who served in the Republic of Vietnam during the period beginning on February 28, 1961, and ending May 7, 1975, if they suffer from certain covered birth defects. VA identifies the birth defects as those that are associated with the service of the mother in Vietnam and resulted in permanent physical or mental disability.

Clothing Allowance may be paid to each veteran who uses prescribed medication for a service-connected skin condition or wears or uses a prosthetic or orthopedic appliance (including a wheelchair), which tends to stain or tear the clothing.

Reinstated Entitlement Program for Survivors (REPS) are benefits to certain surviving spouses and children, formerly provided by the Social Security Administration, were withdrawn by the "Omnibus Budget Reconciliation Act of 1981", Public Law 97-35. REPS restores these benefits to the survivors of veterans who died of service-connected causes incurred before August 13, 1981.

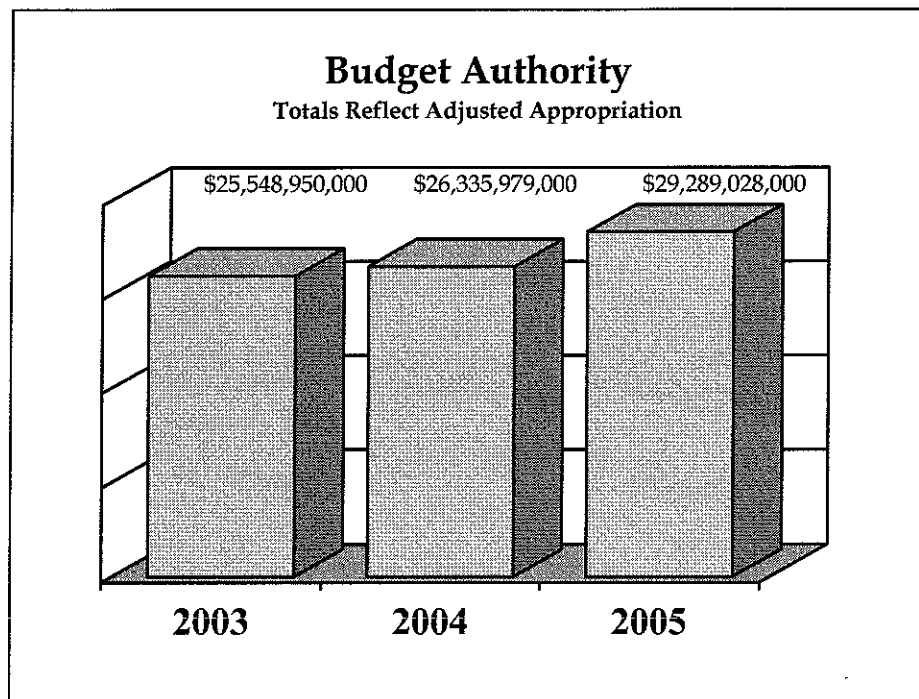
Automobile Grants and Adaptive Equipment program provides for a one-time grant (up to \$11,000) for the purchase of an automobile or other conveyance for certain severely disabled veterans and servicepersons. This program also provides for such adaptive equipment as is deemed necessary to ensure safe operation of the vehicle. Veterans suffering from service-connected ankylosis of one or both knees or hips are eligible for only the adaptive equipment. Replacement or repair of adaptive equipment also is authorized.

Special Allowance for Dependents is an allowance payable to dependents of certain veterans who died after December 31, 1956, but who were not fully and currently insured under the Social Security Act.

Equal Access to Justice Act (EAJA) are payments of awards resulting from the successful challenge of agency policies, procedures, and regulations before the U.S. Court of Veterans Appeals (COVA) as authorized by the "Equal Access to Justice Act," (EAJA) as amended by section 506 of Public Law 102-572, the "Federal Courts Administration Act of 1992."

Medical Exams is a pilot program authorizing VA to contract out medical examinations to determine service-connected disabilities of veterans who are potential applicants of compensation benefits.

OBRA Payments to VBA and VHA, under current law, allow the VA to perform income verification matches for certain beneficiaries. These payments are paid to the Internal Revenue Service and Social Security Administration for use of their data.



Summary of Budget Request

Budget authority of \$29.3 billion is estimated for 2005 to support the benefits programs funded by the Disability Compensation Benefit appropriation account. Offsetting collections of \$7.5 million from the Department of Defense will fund payments for the Reinstated Entitlement Program for Survivors (REPS).

In addition to benefits provided to 2,607,295 veterans, 328,291 survivors, and 1,062 children, this account provides a clothing allowance to 84,398 veterans; 1,600 automobile grants; 7,968 adaptive equipment items; 1,495 Equal Access to Justice Act (EAJA) payments; and continued funding for the medical exam pilot and payments for discretionary expenses associated with OBRA.

In 2005, compensation obligations are estimated to surpass the 2004 level by more than \$2.1 billion. This increase is primarily due to changes in caseload and average payment for veterans and survivors which will raise program obligations by \$1.7 billion. In addition, the impact of an anticipated 1.3 percent COLA effective December 1, 2004 (\$242.4 million) and the additional two months impact of the 1.4 percent 2003 COLA (\$64.8 million), will increase costs by \$307.2 million. Concurrent receipt and Veterans Benefit Act of 2003 increase costs by \$100 million and \$41.8 million respectively.

Disability Compensation

Summary of Mandatory Appropriation Highlights

(dollars in thousands)

		2004			
Mandatory	2003 Actual	Budget Estimate	Current Estimate	2005 Estimate	Increase(+) / Decrease(-)
Veterans:					
Cases	2,444,807	2,543,600	2,548,204	2,607,295	+59,091
Average Payment	\$8,506	\$8,975	\$9,029	\$9,561	+\$532
Obligations	\$20,796,151	\$22,829,533	\$23,007,760	\$24,929,325	+\$1,921,565
Survivors:					
Cases	311,813	316,747	322,864	328,291	+5,427
Average Payment	\$12,474	\$12,819	\$12,722	\$13,153	+\$431
Obligations	\$3,889,700	\$4,060,390	\$4,107,595	\$4,318,035	+\$210,440
Total:					
Cases	2,756,620	2,860,347	2,871,068	2,935,586	+64,518
Average Payment	\$8,955	\$9,401	\$9,444	\$9,963	+\$519
Obligations	\$24,685,851	\$26,889,932	\$27,115,355	\$29,247,360	+\$2,132,005
Other Obligations:					
Special Benefits for Children	\$16,266	\$19,166	\$16,955	\$17,477	+\$522
Clothing Allowance	47,417	52,938	50,073	51,327	+1,254
REPS	7,842	8,527	8,108	7,468	-640
Automobiles and Adaptive Equipment	42,327	38,532	48,400	50,900	+2,500
Retired Officers	0	10	0	0	0
Special Allowance for Dependents	354	327	328	298	-30
EAJA	5,895	3,172	6,313	6,396	+83
Medical Exam Pilot Program	56,952	50,439	62,180	60,820	-1,360
OBRA Payments ¹	1,713	1,179	1,179	1,615	+436
Total Other Benefit Obligation	\$178,766	\$174,290	\$193,536	\$196,301	+\$2,765
Total Obligations: ²	\$24,864,617	\$27,064,213	\$27,308,891	\$29,443,661	+\$2,134,770
Funding:					
Offsetting Collections	\$-9,427	\$-8,527	\$-8,108	\$-7,468	+\$640
Unobligated balance expiring (Reps)	\$1,585	\$0	\$0	\$0	\$0
Unobligated balances (SOY)	\$-419,794	\$-720,328	\$-1,111,969	\$-147,165	+\$964,804
Unobligated balances (EOY)	\$1,111,969	\$0	\$147,165	\$0	\$-147,165
Budget Authority (net)					
Appropriation	\$25,548,950	\$26,335,358	\$26,335,979	\$29,289,028	+\$2,953,049
Total Mandatory:					
Budget Authority (net)	\$25,548,950	\$26,335,358	\$26,335,979	\$29,289,028	+\$2,953,049
Outlays (net)	\$24,694,903	\$26,907,091	\$27,081,347	\$31,607,830	+\$4,526,483
Other Workload:					
Special Benefits for Children Cases	1,044	1,115	1,054	1,062	+8
Clothing Allowance Recipients	80,641	86,681	83,406	84,398	+992
REPS Trainees	468	541	417	372	-45
Automobile Grants	1,396	1,093	1,600	1,600	0
Adaptive Equipment Items	7,968	8,700	7,968	7,968	0
EAJA Settlements	1,492	715	1,495	1,495	0
Total Other Workload:	92,942	98,845	95,940	96,895	+995

² Dollars may not add due to rounding in this and subsequent charts.

Proposed Legislation

A 1.3 Percent Rate Increase for Compensation Benefits in 2005

Legislation is proposed to provide a 1.3 percent rate increase to all Compensation beneficiaries, including DIC spouses and children, effective December 1, 2004. The 1.3 percent increase is the expected increase in the Consumer Price Index and it is the same increase estimated for Social Security benefits. The cost of this increase in 2005 is estimated to be \$242.4 million and is included in the baseline submission.

Reverse Allen Case providing compensation for drug and alcohol abuse related disabilities.

Legislation is proposed to restore the original interpretation of section 1110 of title 38 U.S.C. prohibiting the granting of service-connected disability arising from alcohol or drug abuse. In February 2001, a three-judge panel of the U.S. Court of Appeals interpreted section 1110 as not precluding compensation for an alcohol or drug abuse-related disability arising secondarily from a service-connected disability. Enactment of this provision is estimated to save \$55.1 million in 2004 and \$2.8 billion over a ten-year period.

Summary of Budget Request-Discretionary

Budget authority of \$657.6 million is requested to fund the discretionary portion of the Disability Compensation Program. The request will provide sufficient funding for: the administrative expenses of 7,057 FTE; the January 1, 2005 pay raise currently estimated at 1.5 percent as well as the associated level of fringe benefits; inflationary expenses; and capital obligations associated with our construction programs. The budget authority request will also provide funding for the following initiatives which will improve the overall quality and timeliness of program services to our veterans and their families: \$1.6 million to fund Virtual VA, \$2.7 million for Compensation and Pension Evaluation Redesign (CAPER), and \$13.8 million to fund this program's share of the VBA-Wide initiative costs.

We made excellent progress during the last year in addressing the Presidential priority of improving the timeliness and accuracy of claims processing. Not only have we hired and trained more than 1,300 employees in the last 3 years to directly address our claims processing backlog, but the productivity of our staff has increased dramatically as well. Between 2001 and 2003, the average number of claims completed per month grew by 70 percent, from 40,000 to 68,000. Last year the inventory of rating-related compensation and pension claims peaked at 432,000. By the end of 2003, we had reduced this backlog of pending claims to just over 250,000, a drop of over 40 percent. We are on track to maintain this timeliness standard in 2005.

We expect to see an increase in claims resulting from the return of veterans who've fought in Operation Enduring Freedom and Operation Iraqi Freedom. Near the close of 2003, \$37.1 million from these funds were approved to support claims processing. With further assessment, the Secretary determined that in order to pay for increasing salary costs and provide necessary overtime funding, VBA needed an additional \$35 million in outlays in 2004, and the remaining \$27.9 million to outlay in 2005 to achieve and sustain his and the President's goal of reaching 100 days processing time. This budget request reflects that the transfer of the total \$100 million to VBA will be accomplished in 2004.

Disability Compensation Summary of Discretionary Appropriation Highlights (dollars in thousands)					
		2004			
	2003 Actual	Budget Estimate	Current Estimate	2005 Estimate	Increase(+) / Decrease(-)
Discretionary					
FTE					
Direct	6,206	5,875	6,035	6,040	+5
Information Technology	370	296	364	352	-12
Management Direction and Support	770	663	693	665	-28
Total FTE	7,346	6,834	7,092	7,057	-35
Obligations:					
Personal Services	\$517,872	\$457,947	\$520,977	\$555,641	+\$34,663
Travel	5,944	4,741	4,954	5,503	+549
Interagency Motor Pool	1,354	1,430	1,454	1,254	-200
Transportation of Things	1,546	1,593	1,634	1,431	-203
Rent, Communications & Utilities	73,163	73,702	73,804	67,744	-6,061
Printing	1,463	1,456	1,470	1,356	-114
Other Services	99,567	53,684	140,134	92,264	-47,869
Supplies and Materials	4,666	5,509	4,674	4,326	-348
Equipment	10,000	12,326	9,099	9,270	+171
Insurance Claims	47	0	41	45	+4
Total Administrative Obligations	\$715,621	\$612,388	\$758,242	\$738,834	\$-19,407
Capital Obligations:					
Major Construction	\$297	\$0	\$0	\$100	+\$100
Minor Construction	\$12,266	\$11,775	\$11,775	\$12,247	+\$472
Total Discretionary Obligations	\$728,184	\$624,163	\$770,017	\$751,181	\$-18,836
Reimbursements	\$-61,229	\$-2,724	\$-66,464	\$-65,089	+\$1,375
Unobligated balance SOY ^{1/}	\$-18,227	\$-5,562	\$-40,337	\$-32,388	+\$7,949
Unobligated balance EOY ^{1/}	\$40,337	\$+5,562	\$32,388	\$3,920	\$-28,468
Unobligated balance expiring	\$1,271	0	0	0	0
Transfers in from other accounts ^{1/}	\$0	0	\$-62,896	\$0	+\$62,896
Total Appropriation	\$690,336	\$621,439	\$632,708	\$657,624	+\$24,916
Outlays	\$651,657	\$648,135	\$714,033	\$668,301	\$45,732

^{1/} P.L. 108-11, the Emergency Wartime Supplemental Appropriations Act, made available \$100 million of no-year funds to be used at the Secretary's discretion for veterans' needs associated with veterans returning from the Persian Gulf War Combat arena. The above chart reflects \$34.549 million transferred to VBA in 2003 and \$62.896 million requested for transfer in 2004. Because of receiving the 2003 funding late in the fiscal year, \$69.549 million will be available in 2004 and \$27.896 million will be available in 2005 for disability compensation obligations.

Pensions

This appropriation provides for the payment of pensions benefits to wartime veterans rated permanently and totally disabled with limited income and their survivors.

Pensions is a needs based benefit provided to wartime veterans who have been rated permanently and totally disabled, as a result of a non-service-connected disability. Upon the death of the wartime veteran, the surviving spouse and children are eligible for a pension. There are no disability requirements for survivors. The payable amount is determined by the annual countable income, and the number of dependents of the recipient.

Program Description

Nonservice-Connected Disability Pension is provided for veterans with non-service-connected disabilities who served in time of war. The veterans must be permanently and totally disabled or must have attained the age of 65 and must meet specific income limitations.

Medical Exams is a pilot program which authorizes VA to contract out medical examinations to determine non-service connected disabilities of veterans who are potential applicants of pension benefits.

Death Pension is provided for surviving spouses and children of wartime veterans who died of nonservice-connected causes, subject to specific income limitations.

Pension payments are made under one of three programs:

- **Old Law pension** is payable if entitlement was established prior to July 1, 1960. The rate payable to a veteran or survivor does not vary with differences in income so long as countable income does not exceed the applicable income limitation.
- **Prior Law pension (Section 306)** is payable if entitlement was established prior to January 1, 1979. Prior to that date, the rate payable to a veteran or survivor varied depending upon the amount by which countable income exceeds various levels, with reductions of a few cents of pension for each dollar of added income. Effective January 1, 1979, amounts of Prior Law pension have been frozen at the rates to which eligible veterans were entitled and remain payable as long as countable income does not exceed the applicable income limit and dependency does not decrease.

- **Improved Law program (Public Law 95-588)** is payable if entitlement was established post January 1, 1979. In determining annual income under this law, all payments shall be included, except those exclusions specifically provided for by law. Payments for Improved Law program beneficiaries are computed by reducing, dollar-for-dollar, benefit levels specified in the act by the income of the beneficiary. The Improved Law program provides the same automatic annual percentage increase at the same time as the Social Security increase. Pension payments are not reduced solely as a result of Social Security payment increases.

Pensions Program Limits

The cost-of-living increase for Improved Law beneficiaries, which is automatically tied to that afforded to Social Security beneficiaries, is estimated to increase 2005 rates and income limitations by 1.3 percent. Rate increases afforded by COLAs are responsible for most of the average cost increases. Since rates for pensioners covered by earlier programs are frozen, variations in average benefit payments for these beneficiaries are attributed to changes in dependency, qualifying income, health, or other eligibility criteria. The current annual income standards are shown below:

Veterans		Survivors	
Without dependents	\$ 9,894	Spouse without dependent	\$6,634
With one dependent	\$12,959	Spouse with one dependent	\$8,686
Each additional dependent	\$ 1,688	Each additional dependent	\$1,688

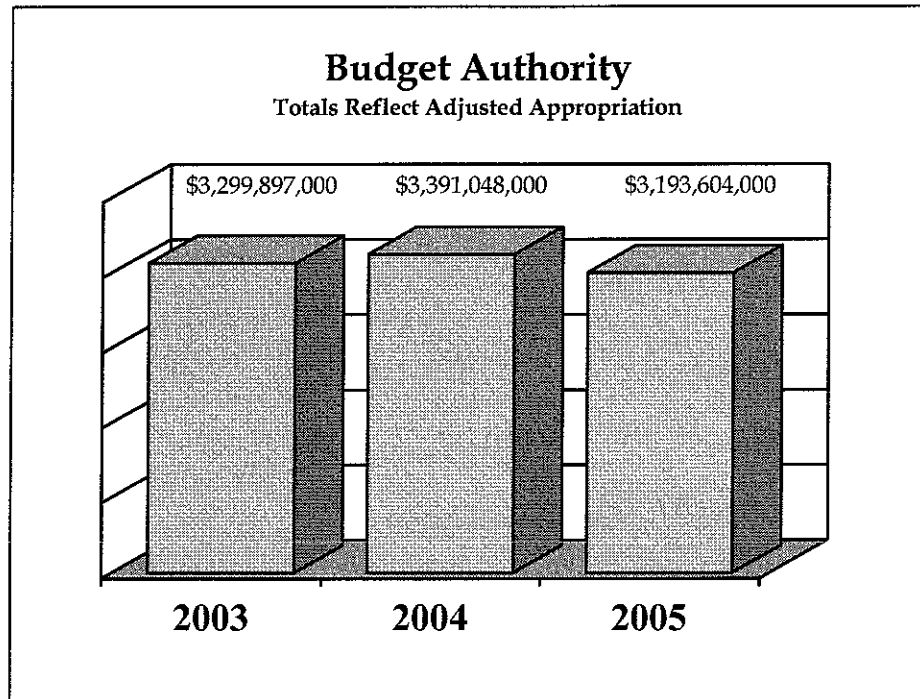
If veterans are entitled to Improved Law pension based on service during the Mexican Border Period or World War I, then \$2,197 is added to their income standard. Veterans and surviving spouses with entitlement to housebound, or aid and attendance have higher income standards due to the severity of their disability.

Beneficiaries Receiving Pensions

Caseload for both veterans and survivors is expected to decline through 2005. These estimates, based on current trends are distributed as follows: WWI & Prior (13,357) WWII (263,789), Korean (99,092), Vietnam (169,740) and Gulf War (4,878).

In 2005, pension benefits will be made to an estimated 550,856 beneficiaries. More than 88 percent of these cases receive benefits under the Improved Law program, which accounts for almost 98 percent of the program's cost.

OBRA Payments to VBA and VHA, under current law, allow the VA to perform income verification matches for certain beneficiaries. These payments are paid to the Internal Revenue Service and Social Security Administration for use of their data.



Summary of Budget Request - Mandatory

Budget authority of \$3.2 billion is estimated for 2005 to support the programs funded by the Pensions appropriation account. The Pension program will provide benefits to an estimated 550,856 beneficiaries at an average annual payment of \$6,058. This account will also provide funding for the administrative expenses associated with OBRA requirements.

Pensions
Summary of Mandatory
Appropriation Highlights
(dollars in thousands)

	2004				
	2003 Actual	Budget Estimate	Current Estimate	2005 Estimate	Increase(+) / Decrease(-)
Mandatory					
Veterans:					
Cases	345,297	339,905	344,055	343,168	-887
Average Payment	\$7,278	\$7,776	\$7,460	\$7,647	\$+187
Obligations	\$2,513,123	\$2,643,048	\$2,566,694	\$2,624,087	\$+57,393
Survivors:					
Cases	226,001	213,648	217,522	207,688	-9,834
Average Payment	\$3,121	\$3,424	\$3,264	\$3,433	\$+169
Obligations	\$705,382	\$731,562	\$709,977	\$712,893	\$+2,916
Total:					
Cases	571,298	553,553	561,577	550,856	-10,721
Average Payment	\$5,634	\$6,096	\$5,835	\$6,058	\$+223
Obligations	\$3,218,505	\$3,374,610	\$3,276,671	\$3,336,980	\$+60,309
Payments for Discretionary Expenses					
OBRA Payment to VBA ¹	\$6,850	\$6,787	\$6,787	\$7,885	\$+1,098
OBRA Payment to VHA	\$8,575	\$9,090	\$9,090	\$11,203	\$+2,113
Contract Medical Exam Pilot Program	\$633	\$561	\$692	\$677	\$-15
Total Obligations²	\$3,234,563	\$3,391,048	\$3,293,241	\$3,356,745	\$+63,504
Funding:					
Unobligated balances (SOY)	\$0	\$0	\$-65,334	\$-163,141	\$-97,807
Unobligated balances (EOY)	\$65,334	\$0	\$163,141	\$0	\$-163,141
Total Mandatory:					
Budget Authority (net)	\$3,299,897	\$3,391,048	\$3,391,048	\$3,193,604	\$-197,444
Outlays (net)	\$3,229,326	\$3,383,632	\$3,289,049	\$3,618,957	\$+329,908

² Dollars may not add due to rounding in this and subsequent charts.

Proposed Legislation

Eliminate 45-day rule for Death Pension

Legislation is being proposed to restore language to 38 U.S.C. 5110(d) making death pension effective the first day of the month in which the death occurred if the claim is received within one year, thus eliminating the current 45-day rule for death pension. The anticipated cost of this proposal is \$207 thousand in 2004 and \$6.8 million over ten years.

Summary of Budget Request-Discretionary

Budget Authority of \$139.4 million is requested to fund the discretionary portion of the Pensions Program. The request will provide sufficient funding for: the administrative expenses of 1,444 FTE; the January 1, 2005 pay raise currently estimated at 1.5 percent as well as the associated level of fringe benefits; inflationary expenses; and capital obligations associated with our construction programs. The budget authority request will also provide funding for the following initiatives which will improve the overall quality and timeliness of program services to our veterans and their families: \$400 thousand to fund Virtual VA, \$700 thousand for Compensation and Pensions Evaluation Design (CAPER), and \$2.3 million to fund this Program's share of the VBA-Wide initiatives cost.

Pensions Summary of Discretionary Appropriation Highlights (dollars in thousands)					
	2004				
	2003 Actual	Budget Estimate	Current Estimate	2005 Estimate	Increase(+) / Decrease(-)
Discretionary					
FTE					
Direct	1,551	1,506	1,451	1,230	-221
Information Technology	83	76	81	78	-3
Management Direction and Support	193	170	167	136	-31
Total FTE	1,827	1,752	1,699	1,444	-255
Obligations:					
Personal Services	\$108,693	\$107,897	\$123,609	\$112,703	\$-10,906
Travel	1,217	1,148	1,148	1,192	+44
Interagency Motor Pool	277	424	262	272	+10
Transportation of Things	316	435	295	365	+70
Rent, Communications & Utilities	14,984	17,943	16,084	16,879	+795
Printing	301	308	315	389	+74
Other Services	20,390	16,166	13,835	10,093	-3,742
Supplies and Materials	963	1,199	1,041	957	-84
Equipment	2,063	2,909	2,909	2,051	-858
Insurance Claims	10	0	7	9	+2
Total Administrative Obligations	\$149,215	\$148,429	\$159,505	\$144,909	\$-14,596
Capital Obligations:					
Major Construction	\$75	\$246	\$343	\$0	\$-343
Minor Construction	\$3,056	\$3,019	\$3,019	\$3,083	+\$64
Total Discretionary Obligations	\$152,346	\$151,694	\$162,867	\$147,992	\$-14,875
Reimbursements	\$-7,267	\$0	\$-7,478	\$-8,556	\$-1,078
Unobligated balance SOY	\$-3,204	\$-1,389	\$-3,671	\$-1,080	+\$2,591
Unobligated balance EOY	\$3,671	+\$1,389	\$1,080	\$1,059	\$-21
Unobligated balance expiring	\$0	\$0	\$0	\$0	\$0
Transfers in from other accounts	\$0	\$0	\$0	\$0	\$0
Total Appropriation	\$145,546	\$151,694	\$152,798	\$139,415	\$-13,384
Outlays (net)	\$141,751	\$151,966	\$153,396	\$138,395	\$-15,001

Education

This appropriation provides for the payment of readjustment benefits for eligible veterans and servicepersons and for eligible dependents of: (a) those veterans who either died from service-connected causes or have a total and permanent rated service-connected disability; and (b) servicepersons who were prisoners of war or missing in action pursuant to 38 U.S.C. chapter 35.

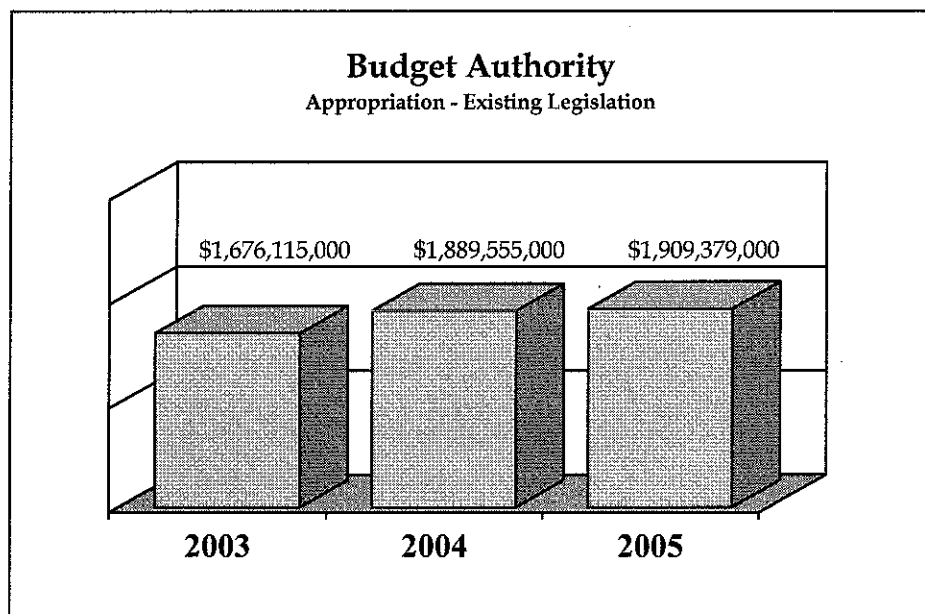
Public Laws 98-525 and 100-48 provide educational assistance to veterans whose initial entry on active duty takes place after July 1, 1985. These benefits are included in the All-volunteer force educational assistance program (Montgomery GI Bill) authorized under 38 U.S.C. chapter 30. Basic benefits were funded through appropriations made to the Readjustment Benefits appropriation (now the Education business line). Supplemental benefits are also provided to certain veterans. These benefits were funded through transfers from the Department of Defense. This law also provides education assistance to certain members of the Selected Reserve. Transfers from the Department of Defense and Department of Homeland Security fund reservists' training. Public Law 101-510, enacted on November 5, 1990, allows servicepersons enrolled or eligible to reenroll in the Post-Vietnam Era Veteran Education Program (VEAP), who are involuntarily separated from the service on or after February 3, 1991, an opportunity to make an irrevocable election to receive assistance under the Montgomery GI Bill (MGIB) educational assistance program in lieu of VEAP.

Effective October 23, 1992, Public Law 102-484, "National Defense Authorization Act for Fiscal Year 1993", extended the same opportunity to certain servicepersons who voluntarily separate from the military on or after December 5, 1991. Public Law 104-275, "The Veterans Benefits Improvement Act of 1996," and Public Law 106-419, "The Veterans Benefits and Health Care Improvement Act of 2000" provide chapter 32 (and section 903) servicepersons the opportunity to make an irrevocable election to enroll in the MGIB program. These laws provide that the serviceperson must have been a VEAP participant on October 9, 1996. Individuals who make an election under Public Law 104-275 will be disenrolled from the VEAP program and required to pay \$1,200 to become eligible for the MGIB program. Individuals who make an election under Public Law 106-419 will be disenrolled from the VEAP program and required to pay \$2,700 into the Department of Treasury's GI Bill receipt account to establish eligibility under the MGIB program. Effective January 1, 2002, Public Law 107-103 increased the entitlement rates for full time trainees in chapters 30 and 35. The rate increased on October 1, 2002, to \$900 and increased on October 1, 2003 to \$985. Subsequent annual rate increases will be determined by the Consumer Price Index (CPI) adjustment and rounded to the nearest dollar.

Work-study payments are provided to eligible persons pursuing a program of rehabilitation, education, or training under chapters 30, 31, 32, and 35 of title 38, U.S.C. and chapter 1606 of title 10.

Also funded under this program are payments to State Approving Agencies (SAA) and reporting fees. SAA payments provide for the reimbursement of the costs associated with inspecting, approving, and supervising programs of education and training offered by educational institutions in which veterans, dependents, and reservists are enrolled.

Public Law 105-368 transferred the reporting fee payments from the General Operating Expenses (GOE) Appropriation to the Readjustment Benefits Appropriation. VA must base reporting fee payments on the number of veterans enrolled during a calendar year. Previous payments were based on veterans in training on October 31. Reporting fees are paid to education and training institutions to help defray the costs of certifying education enrollment.



Summary of Budget Request-Mandatory

Budget authority of \$1.9 billion, when combined with \$315.1 million in offsetting collections from Departments of Defense (\$314.3 million) and Homeland Security (\$819 thousand), an unobligated balance of \$336 million from 2004, and a projected \$64.2 million 2005 end-of-year unobligated balance is sufficient to provide full funding for the estimated Education Benefits obligations of \$2.5 billion. The unobligated balance at the end of 2005 is a trust fund balance of the Post Vietnam Era Education account.

Education
Summary of Mandatory Appropriation Highlights
(dollars in thousands)

		2004			
	2003 Actual	Budget Estimate	Current Estimate	2005 Estimate	Increase (+) Decrease(-)
Mandatory					
Obligations:					
Veterans/servicemembers	\$1,554,806	\$1,934,562	\$1,729,644	\$1,831,048	\$+101,404
Reservists	164,190	170,938	184,490	204,429	+19,939
Dependents' Education and Training	278,531	266,749	319,840	389,658	+69,818
Tuition Assistance	12,592	69,160	14,041	14,280	+239
National Call to Service	0	0	0	1,600	+1,600
Licensing and certification tests	1,744	5,371	4,377	4,815	+438
Work-Study 1/	22,277	30,600	23,184	23,915	+731
State approving agencies	13,615	18,000	18,000	18,000	0
Reporting fees	3,044	3,240	3,240	3,240	0
Printing/L&C Programming	815	1,443	4,436	1,904	-2,532
VEAP training	1,280	2,290	2,190	2,110	-80
VEAP disenrollments	3,318	8,540	8,540	3,240	-5,300
Education Loan Modification	0	0	127	0	-127
Total Mandatory Obligations	\$2,056,212	\$2,510,893	\$2,312,109	\$2,498,239	\$+186,130
Funding:					
Unobligated balance (SOY)	\$-598,740	\$-309,042	\$-476,156	\$-335,991	\$+140,165
Unobligated balance (EOY)	\$476,156	\$61,676	\$335,991	\$64,162	\$-271,829
Budget authority (gross)	\$1,933,628	\$2,263,527	\$2,171,944	\$2,226,410	\$+54,466
Offsetting collections	\$-256,247	\$-356,634	\$-279,880	\$-315,119	\$-35,239
Offsetting collections from Educ. Loan	\$0	\$0	\$-246	\$0	\$+246
Budget authority (net)	\$1,677,381	\$1,906,893	\$1,891,818	\$1,911,291	\$+19,473
Appropriation	1,676,115	1,904,665	1,889,555	1,909,379	+19,824
Appropriation (trust fund, indefinite)	1,266	2,228	2,136	1,912	-224
Appropriation (permanent, indefinite)	0	0	127	0	-127
Outlays (net)	\$1,791,269	\$2,153,140	\$2,051,765	\$2,180,782	\$+129,017
Education Loan Liquidating Account:					
Unobligated balance (SOY)	\$-66	\$-109	\$-109	\$0	\$+109
Unobligated balance (EOY)	\$109	\$0	\$0	\$0	\$0
Transfer to RB	\$0	\$0	\$246	\$0	\$-246
Offsetting Collections	\$-43	\$-25	\$-137	\$0	\$+137
Budget Authority	\$0	\$0	\$0	\$0	\$0
Outlays (Net)	\$-43	\$-25	\$-137	\$0	\$+137
Budget authority (net)	\$1,677,381	\$1,906,893	\$1,891,818	\$1,911,291	\$+19,473
Outlays (net)	\$1,791,226	\$2,153,115	\$2,051,628	\$2,180,782	\$+129,154

Note: Dollars may not add due to rounding in this and subsequent charts.

1/ Includes chapter 1606 work-study reimbursement.

Education
Summary of Mandatory Appropriation Highlights (cont'd)
(dollars in thousands)

		2004			
	2003 Actual	Budget Estimate	Current Estimate	2005 Estimate	Increase(+) Decrease(-)
Workload Data and Other Items					
Workload:					
Veterans/servicemembers	305,935	332,026	313,952	327,736	+13,784
Reservists	89,961	94,734	98,900	107,738	+8,838
Dependents' Education and Training	61,958	59,128	67,401	73,352	+5,951
Tuition assistance	24,527	140,000	25,000	25,000	0
National Call to Service	0	0	0	160	+160
VEAP trainees (Chapter 32)	740	880	880	700	-180
VEAP trainees (Section 901)	28	20	20	24	+4
Total trainees	483,149	626,788	506,153	534,710	+28,557
Licensing and certification tests	6,574	15,000	15,000	15,000	0
Work- study contracts ^{1/}	18,378	17,000	18,400	18,400	0
VEAP disenrollments	3,530	10,600	1,200	400	-800
Average trainee cost:					
Veterans/servicemembers	\$5,061	\$5,802	\$5,489	\$5,567	+\$78
Reservists	\$1,825	\$1,804	\$1,865	\$1,897	+\$32
Dependents' Education and Training	\$4,495	\$4,511	\$4,745	\$5,312	+\$567
National Call to Service	\$0	\$0	\$0	\$10,000	+\$10,000
VEAP training (Chapter 32)	\$1,584	\$2,375	\$2,273	\$2,757	+\$484
VEAP training (Section 901)	\$3,857	\$10,000	\$9,500	\$7,500	-\$2,000
Costs:					
Veterans/ servicemembers	\$1,548,421	\$1,926,368	\$1,723,195	\$1,824,535	+\$101,340
Reservists ^{2/}	\$164,190	\$170,938	\$184,490	\$204,429	+\$19,939
Dependents' Education and Training	\$278,531	\$266,749	\$319,840	\$389,658	+\$69,818
National Call to Service	\$0	\$0	\$0	\$1,600	+\$1,600
VEAP training (Chapter 32)	\$1,172	\$2,090	\$2,000	\$1,930	-\$70
VEAP training (Section 901)	\$108	\$200	\$190	\$180	-\$10

Note: Dollars may not add due to rounding in this and subsequent charts.

1/ Includes chapter 1606 work-study reimbursement.

2/ Work-study costs not included.

Proposed Legislation 2005 Budget

VBA Technical Amendment

This technical amendment will change the law on accelerated payment to make clear that courses that are "helpful," and not just "required" may be offered by an entity for it to be considered an "educational institution." The first-year cost is estimated to be \$148 thousand in 2005 and \$1.7 million over ten years.

VBA Technical Amendment

This technical amendment will eliminate the ambiguity in 38 U.S.C. 3012 regarding chapter 30 eligibility requirements by deleting "on or" in 38 U.S.C. 3012(a)(1)(C)(ii). The sentence would read "reenlists or reenters on a period of active duty after October 19, 1984...". There are no costs associated with this proposal.

VBA Technical Amendment

This technical amendment will amend chapters 30 and 32 so that servicemembers who have been incarcerated for a crime and have been sentenced to prison with a disqualifying character of discharge to follow will not be allowed VA education benefits while they are serving their sentence. The first-year saving is estimated to be \$8 thousand and \$91.5 thousand in savings over ten years.

Summary of Budget Request-Discretionary

Budget authority of \$91.2 million is requested to support the Education program. Compared to the 2004 anticipated enacted level, total obligations are expected to increase by \$2.5 million in 2005. These funds will provide for a 1.5 percent pay raise and continue excellent timeliness and accuracy accomplishments in providing education benefits to those who apply and participate. Additionally, \$5.2 million is requested to continue improvements in the prototype system, "The Education Expert System" (TEES). This effort will encompass several important improvements, but especially will develop a new application to receive electronic enrollment certifications from schools and training facilities and will support the delivery of other associated benefits. This investment will greatly assist VBA in their goal of automatically processing 90 percent of all enrollments and changes.

The Education Loan Program has been eliminated and the Administration has not requested appropriation language for the program.

Education
Summary of Discretionary Appropriation Highlights
(dollars in thousands)

		2004			
Discretionary	2003 Actual	Budget Estimate	Current Estimate	2005 Estimate	Increase(+) Decrease(-)
FTE					
Direct	708	795	766	737	-29
Information Technology	70	74	72	69	-3
Management Direction and Support	88	100	88	82	-6
Total FTE	866	969	926	888	-38
Obligations:					
Personal Services*	\$52,801	\$61,170	\$61,047	\$63,646	+\$2,599
Travel	803	1,748	1,684	2,265	+581
Interagency Motor Pool	136	197	285	383	+98
Transportation of Things	213	284	249	262	+13
Rent, Communications & Utilities	7,806	13,126	11,464	11,537	+73
Printing	465	1,477	1,137	1,162	+25
Other Services	5,263	17,668	11,454	8,879	-2,575
Supplies and Materials	530	1,812	926	932	+6
Equipment	997	1,677	1,677	3,222	+1,545
Insurance Claims	5	20	6	7	+1
Total Administrative Obligations	\$69,019	\$99,179	\$89,928	\$92,296	+\$2,366
Capital Obligations:					
Major Construction	\$0	\$0	\$0	\$0	\$0
Minor Construction	\$356	\$757	\$757	\$855	+\$98
Total Discretionary Obligations	\$69,375	\$99,936	\$90,685	\$93,151	+\$2,466
Reimbursements	\$-815	\$-1,413	\$-4,436	\$-1,904	+\$2,532
Unobligated SOY	\$-1,970	\$-362	\$-4,026	\$-789	+\$3,237
Unobligated EOY	\$4,026	\$362	\$789	\$702	\$-87
Total Appropriation	\$70,616	\$98,523	\$83,012	\$91,160	+\$8,148
Outlays (net)	\$67,314	\$98,458	\$82,630	\$87,645	+\$5,015
Off-Budget					
Education Loan Financing Account					
Direct Loans:					
Obligations	\$0	\$0	\$127	\$0	\$-127
Collections	\$0	\$0	\$127	\$0	\$-127
Financing Disbursements (Net)	\$0	\$0	\$0	\$0	\$0

*Payroll costs of \$70 thousand for the Education Loan Program are included in Personal Services for the 2003 Actual and 2004 Current Estimate.

Vocational Rehabilitation and Employment

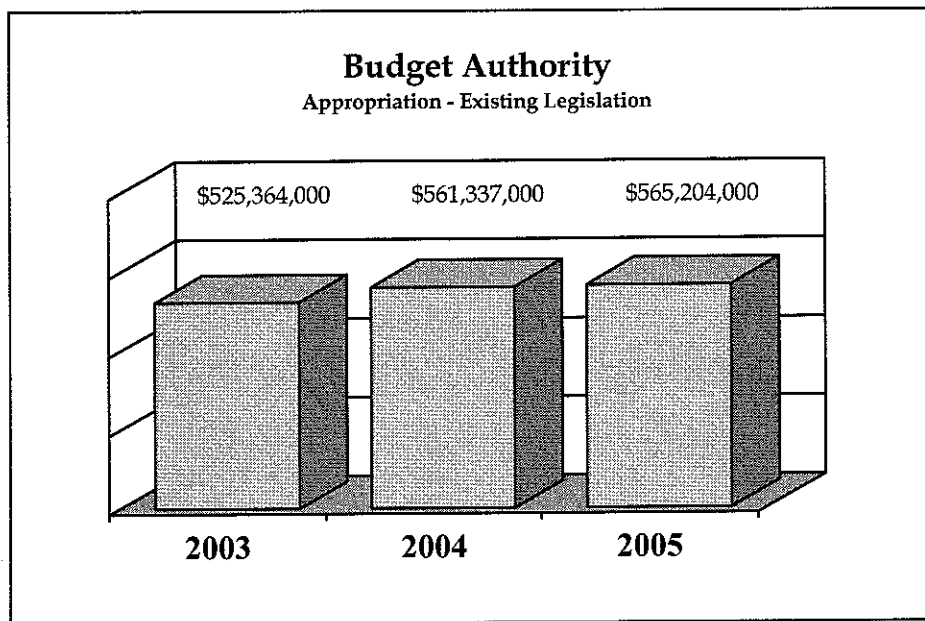
Program Description

This program provides eligible service-disabled veterans with services and assistance necessary to enable them to become employable and to obtain and maintain suitable employment to the maximum extent possible. Disabled veterans not requiring vocational rehabilitation training to overcome an identified employment handicap may be provided direct employment services. These services include job placement activities, modification of necessary equipment to maintain employment, as well as other services necessary to meet the veterans' needs. Another aspect of this program is the provision of independent living services for severely disabled veterans who do not have employment potential.

Veterans participating in the Vocational Rehabilitation and Employment (VR&E) program receive a monthly subsistence allowance, in addition to payments for dependents, tuition, books, handling charges, supplies, and equipment. The monthly subsistence allowance for a single veteran enrolled in full time institutional training in 2003 was \$454.96. Commencing October 1 of each subsequent year, the subsistence rate will increase commensurate with the Consumer Price Index.

The Vocational Rehabilitation Loan Program provides loans at twice the amount of the indexed full-time subsistence allowance for a veteran with no dependents under chapter 31 (currently \$909.82). These loans are available to service-connected disabled veterans participating in VA's VR&E Program when the rehabilitation counselor believes the veteran temporarily needs additional financial assistance. These loans help to ensure the veterans remain in training. These loans help protect VA's investment in the veteran, which averaged \$7,131 in 2003. Repayment of the loan is made in monthly installments, without interest, through deductions from future payments of compensation, pension, subsistence allowance, educational assistance allowance, or retired pay, thus ensuring loans are repaid. Most loans are repaid in full in less than one year. There are few defaults.

Reporting fees are paid from this account to educational and training institutions to help defray the cost of certifying education enrollment. The reporting fee payments are based on the veterans in training during each calendar year. The reporting fee rate is \$7 for eligible veterans or persons enrolled in the VR&E program. The reporting fee rate for veterans or persons whose educational assistance checks are paid directly to an institution is \$11.



Summary of Budget Request - Mandatory

Budget authority of \$565.2 million and the unobligated balance of \$22.1 million will be sufficient to provide funding for the Vocational Rehabilitation and Employment program in 2005. The 2005 request includes \$331.7 million to cover the cost of books, supplies, tuition, and fees for 58,690 veterans, \$244.0 million in subsistence allowance payments, \$11.2 million for work study contracts, and \$360 thousand for reporting fees payable to educational institutions.

**Vocational Rehabilitation & Employment
Summary of Mandatory Appropriation Highlights
(dollars in thousands)**

	2004				
	2003 Actual	Budget Estimate	Current Estimate	2005 Estimate	Increase(+) Decrease(-)
Mandatory					
Subsistence Allowance	\$223,636	\$225,911	\$234,112	\$244,043	\$+9,931
Books, tuition, supplies, fees, etc.	279,807	319,226	304,592	331,743	+27,151
Reporting fees	338	360	360	360	0
Work-study, Chapter 31	10,797	15,840	10,965	11,152	+187
Total Mandatory Obligations	\$514,578	\$561,337	\$550,029	\$587,297	\$+37,269
Funding:					
Unobligated Balance (SOY)	\$ 0	\$0	\$-10,786	\$-22,094	\$-11,308
Unobligated Balance (EOY)	\$10,786	\$0	\$22,094	\$ 0	\$-22,094
Budget authority (net)	\$525,364	\$561,337	\$561,337	\$565,204	\$+3,867
Outlays (net)	\$514,317	\$561,356	\$556,136	\$586,735	\$+30,599
Workload Data and Other Items					
Workload/ Participants:					
Receiving Subsistence Allowance	55,900	56,540	57,259	58,690	+1,431
Not receiving Subsistence Allowance	15,687	16,977	16,258	16,848	+590
Total Participants	71,587	73,517	73,517	75,538	+2,021
Rehab Evaluation, Planning, and Service	22,395	N/A	22,999	23,631	+632
Work-study contracts	8,908	8,800	8,900	8,900	0
Average Cost:					
Subsistence Allowance	\$4,001	\$3,996	\$4,089	\$4,158	\$+69
Books, tuition, supplies, fees, etc.	\$3,909	\$4,342	\$4,143	\$4,392	\$+249
Participant average cost	\$7,033	\$7,415	\$7,328	\$7,622	\$+294
Work-study contracts	\$1,212	\$1,800	\$1,232	\$1,253	\$+21
Cost:					
Subsistence Allowance	\$223,636	\$225,911	\$234,112	\$244,043	\$+9,931
Books, tuition, supplies, fees, etc.	279,807	319,226	304,592	331,743	+27,151
Participant cost	\$503,443	\$545,137	\$538,704	\$575,786	\$+37,802
Work-study contracts	\$10,797	\$15,840	\$10,965	\$11,152	\$+187

Note: Dollars may not add due to rounding in this and subsequent charts.

Summary of Budget Request - Discretionary

Budget authority of \$140.4 million and 1,015 FTE are requested in 2005 to fund the discretionary portion of the Vocational Rehabilitation and Employment program. The request represents an increase of \$5.8 million over the 2004 level. It will provide sufficient funding for administrative obligations of \$138.5 million and capital obligations totaling \$2 million for minor construction activities. This program continues to make substantial progress in assisting more veterans to achieve rehabilitation through suitable employment. Since 1996 there has been a 27 percent increase in veterans re-entering the job market or achieving independent living. Our emphasis on employment, the assistance provided by Employment Specialists, and the employment services training provided to our staff, along with our Disabled Veteran Outreach Program Specialist and Local Veteran Employment Representative partners continue to increase the number of veterans who obtain

suitable employment and reduce the amount of time they are job-seeking. Funding for the VR loan program to provide a loan level of \$4.1 million for 4,524 loans is estimated at \$311 thousand for administrative expense and \$47 thousand for loan subsidy.

Vocational Rehabilitation & Employment Summary of Discretionary Appropriation Highlights (dollars in thousands)					
		2004			
Discretionary:	2003 Actual	Budget Estimate	Current Estimate	2005 Estimate	Increase(+) Decrease(-)
FTE					
Direct	931	935	963	876	-87
Information Technology	44	44	44	42	-2
Management Direction and Support	116	225	111	97	-14
Total FTE	1,091	1,204	1,118	1,015	-103
Obligations:					
Personal Services	\$81,467	\$89,013	\$90,321	\$88,909	\$-1,412
Travel	\$1,505	1,619	1,614	1,864	+250
Interagency Motor Pool	222	260	238	276	+38
Transportation of Things	251	230	263	314	+51
Rent, Communications & Utilities	10,735	11,789	11,782	12,420	+638
Printing	209	262	261	311	+50
Other Services	17,526	26,342	26,607	30,037	+3,430
Supplies and Materials	1,125	949	881	1,004	+123
Equipment	1,489	3,034	3,034	3,334	+300
Insurance Claims	6	0	7	8	+1
VR&E Loan Subsidy	42	52	52	47	-5
Total Administrative Obligations 1/	\$114,578	\$133,550	\$135,060	\$138,524	+\$3,464
Capital Obligations:					
Major Construction	\$35	\$0	\$0	\$0	\$0
Minor Construction	\$1,838	\$1,841	\$1,841	\$2,045	+204
Total Discretionary Obligations	\$116,451	\$135,391	\$136,901	\$140,569	+\$3,668
Reimbursements	0	0	0	0	0
Unobligated SOY	\$-2,318	\$-869	\$-3,380	\$-1,071	+\$2,309
Unobligated EOY	\$3,380	\$869	\$1,071	\$ 893	\$ -178
Unobligated balance expiring	\$0	\$0	\$0	\$0	\$0
Transfer in from other accounts	\$0	\$0	\$0	\$0	\$0
Total Appropriation	\$117,513	\$135,391	\$134,592	\$140,391	+\$5,799
Total Outlays	\$114,087	\$134,451	\$133,838	\$135,936	+\$2,098

1/ P.L. 108-11, The Emergency Wartime Supplemental Appropriations Act, made available \$100 million of no-year funds to be used at the Secretary's discretion for veterans' needs associated with veterans returning from the Persian Gulf War Combat arena. The above chart reflects \$2.375 million transferred to VBA in 2003. Because of receiving the 2003 funding late in the fiscal year, \$2.375 million will be made available in 2004 obligations.

Vocational Rehabilitation & Employment
Summary of Discretionary Appropriation Highlights (cont'd)
(dollars in thousands)

	2004				
	2003 Actual	Budget Estimate	Current Estimate	2005 Estimate	Increase (+) Decrease (-)
Financing Account					
Direct Loans:					
Obligations	\$3,014	\$3,967	\$4,031	\$4,163	\$+132
Collections	\$2,945	\$3,870	\$3,579	\$4,089	\$+510
Financing Authority (net)	\$3,461	\$97	\$504	\$74	\$-430
Financing Disbursement (net)	\$67	\$97	\$453	\$74	\$-379
Vocational Rehabilitation Loan Program					
Number of VR loans	4,327	4,845	4,393	4,524	+131
Average loan amount	\$650	\$813	\$896	\$908	\$+12
VR loan amount	\$2,814	\$3,938	\$3,938	\$4,108	\$+170
Writeoff/ Adjustments	\$6	\$6	\$5	\$5	\$0

Housing

The 2005 budget request reflects a new account structure. Housing is one of the nine major programs. The Federal Credit Reform Act of 1990, P.L. 101-508, changed the accounting for Federal credit programs to more accurately measure the costs of credit programs and to make credit programs consistent with and comparable to non-credit transactions. The intent of credit reform is to separate the subsidy, cost to the government reflected in the program account, from the off-budget cash flows of credit transactions accounted for in the financing accounts and to focus on the former for budgeting and analysis.

The financing off-budget accounts record all of the cash flows (disbursements, principal and interest repayments, fee collections, default payments, etc.) from post-1991 direct and guarantee loans. Funds are transferred from the program account to the financing accounts when the loans are disbursed.

Program Description - Mandatory

The mandatory housing program includes the Specially Adapted Housing Grants program and two credit reform programs, the Veterans Housing Benefit Program Fund (VHBPF) and the Guaranteed Transitional Housing for Homeless Veterans program.

Veterans Housing Benefit Program

All direct and guaranteed loans made prior to September 30, 1991 are scored in the Veterans Housing Benefit Program Fund Liquidating Account. Under the Federal Credit Reform Act of 1990, all direct and guaranteed loans made after September 30, 1991, are financed by subsidy appropriations to the VHBPF Program Account. This account also receives an appropriation for administrative expenses.

The principal objective of the Veterans Housing loan guaranty program is to encourage and facilitate the extension of favorable credit terms by private lenders to veterans for the purchase, construction, or improvement of homes to be occupied by veterans and their families. The program operates by substituting the Federal Government's guaranty for the downpayment that would otherwise be required when a veteran or reservist purchases a home. Eligible individuals are thus able to finance home purchases even though they may not have the resources to qualify for conventional loans.

In the event of an insoluble default, VA, through its contract of guaranty, will pay any loss sustained by the holder of the loan, up to the amount of the guaranty. To offset program expenses, a variable funding fee, based upon the type of loan and

downpayment, is collected on guaranteed loans and is deposited in the VHBPFF Guaranteed Loan Financing Account. A fee of 2.25 percent is collected on vendee loans, which is deposited in the VHBPFF Direct Loan Financing Account. Persons who assume loans pay a fee of 0.5 percent. Service-connected disabled veterans receiving compensation are exempt from paying the loan fee, as are surviving spouses of veterans who died from a service-connected disability.

VA is authorized to make direct loans to severely disabled veterans in connection with Specially Adapted Housing Grants. The maximum loan amount is \$33,000.

Veterans may also obtain guaranteed loan financing to buy a new or used manufactured home and/or buy or improve a lot for placement of a manufactured home. The guaranty amount is the lesser of 40 percent of the loan amount or \$20,000. Veterans are charged a funding fee of one percent of the loan amount.

Program Account

The Program Account records the subsidy (cost to the government) associated with direct loans obligated and loan guarantees committed since 1992, as well as the discretionary administrative expenses associated with operating the housing programs. Subsidy is calculated on a net present value basis; the administrative expenses are estimated on a cash basis.

Direct Loan Financing Account

The Direct Loan Financing Account (DLFA) is an off-budget account that records all financial transactions to and from the government, resulting from direct loans obligated since 1992 (including all vendees established and loans acquired from the liquidating and guaranteed loan financing accounts). The DLFA is used primarily for the financial tracking of each cohort year's loan activity (principal and interest repayments, Treasury borrowings, interest paid to or received from Treasury, etc.) and is not included in the budget totals when calculating total government spending.

Guaranteed Loan Financing Account

The Guaranteed Loan Financing Account (GLFA) is an off-budget account that records all financial transactions to and from the government, resulting from loan guarantees committed since 1992 (including modifications of loan guarantees that resulted from commitments in any year). Like the DLFA, its primary purpose is the financial tracking of each cohort year's loan activity and is not included in the budget totals when calculating total government spending.

Loan Sales Securities Guaranteed Loan Financing Account

The Guaranteed Loan Sales Securities Account (LSSA) was established in 1999 to record transactions from the guarantee of vendee loans sold under the Vendee Mortgage Trust (VMT) Securitization Program. Like DLFA and GLFA, this

account's primary purpose is the financial tracking of each cohort year's loan sale activity and is not included in the budget totals when calculating total government spending.

Liquidating Account

The Liquidating Account records all cash flows to and from the Government resulting from direct loans obligated and loan guarantees committed prior to 1992. This account is shown on a cash basis. New loan activities in this account in 1992 and after (loans acquired, vendees established, etc.) are recorded in the DLFA.

Guaranteed Transitional Housing for Homeless Veterans

The Transitional Housing program was established by Public Law 105-368; the "Veterans Benefits Enhancement Act of 1998." The program is a pilot project designed to expand the supply of transitional housing for homeless veterans by providing up to 15 loans with a maximum aggregate value of \$100 million. The project must enforce sobriety standards and provide a wide range of supportive services, such as counseling for substance abuse and job readiness skills. Residents will be required to pay a reasonable fee.

In the President's budget, the off-budget account is presented in the Native American and Transitional Housing Direct Loan Financing Account.

Program Account

The Transitional Housing Program Account records the subsidy (cost to the government) associated with direct loan obligations. In 2005, administrative expenses for this program are being requested in the Housing program account. The administrative expenses are currently funded from the Medical Care and General Operating Expenses account.

Direct Loan Financing Account

The Transitional Housing Direct Loan Financing Account (TH DLFA) is an off-budget account that records all financial transactions to and from the government resulting from direct loan obligations. The TH DLFA is used primarily for the financial tracking of each cohort year's loan activity within the financing account and is not included in the budget totals when calculating total government spending. Guaranteed Transitional Housing Loans will be financed by the Federal Financing Bank (FFB) and, for budgetary and accounting purposes, considered Agency debt. Therefore, although this is a guaranteed program, all transactions will be accounted for in a direct loan financing account.

Specially Adapted Housing Grants

The Paraplegic Housing (PH) grant program, as authorized by 38 U. S. C. chapter 21, provides assistance to certain service-connected permanent and totally disabled veterans in acquiring a "wheelchair" accessible home that is specially adapted with such fixtures or facilities made necessary by the nature of the veteran's disability. Public Law 108-183 increased the maximum grant amount from \$48,000 to \$50,000 effective December 16, 2003.

The Adaptive Housing (AH) grant program, as authorized by 38 U. S. C. chapter 21, provides assistance to certain service-connected permanently disabled veterans with special housing adaptations for their needs due to blindness or the loss or loss of use of both hands. Public Law 108-183 increased the maximum grant amount from \$9,250 to \$10,000 effective December 16, 2003.

Program Description - Discretionary

The discretionary portion of the housing programs includes the Native American Veterans Housing Loan Program, a credit reform program, and the administrative expenses for all credit reform (including mandatory) programs.

Native American Veterans Housing Loan Program

The Native American Veterans Housing Loan Program is authorized by 38 U.S.C. chapter 37, section 3761 to provide direct loans to veterans living on trust lands. The loans are available to purchase, construct or improve homes to be occupied as the veteran's residence. The principal amount of a loan under this authority is generally limited to \$80,000, except in areas where housing costs are significantly higher than average costs nationwide. Veterans pay a funding fee of 1.25 percent of the loan amount but veterans with service-connected disability are exempt from paying the fee. The law also requires that, before any direct loans can be made, the veteran's tribal organization sign a Memorandum of Understanding with the Department of Veterans Affairs with respect to the terms and conditions of the loans.

The Native American Veterans Housing Loan Program is a pilot program that began in 1993 and expires on December 31, 2005. Indefinite subsidy authority of \$4.5 million was provided by Public Law 102-38, "Departments of Veterans Affairs, Housing and Urban Development, and Independent Agencies Appropriation Act, 1993." Initial authority for this pilot program expired September 30, 1997. Authority was extended through December 31, 2001, by Public Law 105-114, "Veterans Benefits Act of 1997" and later extended through December 31, 2005, by Public Law 107-103, "Veterans Education and Benefits Expansion Act of 2001."

In the President's budget, the off-budget account is presented in the Native American and Transitional Housing Direct Loan Financing Account.

Program Account

The Program Account records the subsidy (cost to the government) associated with direct loans obligated in 1993 and after, as well as the administrative expenses associated with operating the Native American Veterans Housing Loan program. The subsidy cost is calculated on a net present value basis; the administrative expenses are estimated on a cash basis. This account holds the unobligated balance of the original appropriation for subsidy.

Direct Loan Financing Account

The Direct Loan Financing Account (DLFA) is an off-budget account that records all financial transactions to and from the government resulting from direct loan obligations. The DLFA is used primarily for the financial tracking of each cohort year's loan activity and is not included in the budget totals when calculating total government spending.

Summary of On-Budget Request - Mandatory

Budget authority of \$74.5 million is being requested for the Housing program account for 2005 to provide subsidy payments of \$43.8 million to the Veterans Housing Guaranteed Loan Sales Securities Account and \$30.8 million for Specially Adapted Housing Grants. A subsidy appropriation is not required for the Veterans Housing Guaranteed or Direct Loan programs for 2005 because they have negative subsidy rates. An appropriation is not required for the \$9.7 million in obligations for the Guaranteed Transitional Housing program because unobligated funds remain available from the initial appropriation.

The Liquidating account does not require an appropriation to fund account obligations because sufficient resources are available from the \$89 million in offsetting collections (borrower's principal and interest repayments, sale of homes, etc.). Obligations for 2005 are estimated at \$46.5 million which, when netted with collections, results in a negative budget authority of \$42.5 million.

Total Housing
Summary of Mandatory Appropriation Highlights
(dollars in thousands)

Mandatory	2003 Actual	2004		2005 Estimate	Increase (+) Decrease (-)
		Budget Estimate	Current Estimate		
Liquidating:					
Program Obligations	\$52,933	\$91,426	\$52,503	\$46,488	\$-6,015
Transfer to General Fund	\$85,610	\$42,305	\$80,106	\$42,502	\$-37,604
Offsetting Collections	\$116,033	\$133,731	\$104,993	\$88,990	\$-16,003
Budget authority (net)	\$-60,000	\$0	\$-52,490	\$-42,502	\$+9,988
Outlays (net)	\$-61,218	\$-42,305	\$-75,132	\$-42,502	\$+32,630
Credit Reform Accounts:					
Loan Subsidy Obligations:					
Veterans Housing Guaranteed	\$532,903	\$274,931	\$234,121	\$0	\$-234,121
Veterans Housing Loan Sales	14,303	0	40,721	43,784	+3,063
Veterans Housing Direct	0	30,903	3,373	0	-3,373
Transitional Housing Direct ^{1/}	0	9,650	9,650	9,650	0
Upward Reestimates, including interest:					
Veterans Housing Guaranteed	183,628	0	0	0	0
Veterans Housing Loan Sales	61,105	0	0	0	0
Veterans Housing Direct	506,029	0	0	0	0
Native American Direct	332	0	697	0	-697
Obligations	\$1,298,300	\$315,484	\$288,562	\$53,434	\$-235,128
Unobligated Balance:					
Start of year	\$-48,250	\$-38,600	\$-48,250	\$-38,600	\$+9,650
End of year	\$48,250	\$28,950	\$38,600	\$28,950	\$-9,650
Budget Authority (net)	\$1,298,300	\$305,834	\$278,912	\$43,784	\$-235,128
Obligated Balance:					
Start of year	\$0	\$4,825	\$14,383	\$4,825	\$-9,558
End of year	\$-14,383	\$-4,825	\$-4,825	\$-4,825	\$0
Outlays (net)	\$1,283,918	\$315,484	\$298,119	\$53,434	\$-244,685
Specialty Adapted Housing Grants:					
Grant Obligations	\$21,002	\$25,200	\$30,443	\$30,750	\$+307
Budget authority (net)	\$21,002	\$25,200	\$30,443	\$30,750	\$+307
Outlays (net)	\$21,002	\$25,200	\$30,443	\$30,750	\$+307
Total Mandatory Obligations	\$1,372,235	\$432,110	\$371,508	\$130,673	\$-240,835
Budget Authority:					
Program Account	\$1,319,302	\$331,034	\$309,355	\$74,534	\$-234,821
Liquidating Account	-60,000	0	-52,490	-42,502	+9,988
Total Budget Authority (net)	\$1,259,302	\$331,034	\$256,865	\$32,032	\$-224,833
Total Outlays (net)	\$1,243,702	\$298,379	\$253,430	\$41,683	\$-211,747

Dollars may not add due to rounding in this and subsequent charts.

^{1/} No budget authority is needed because the obligations are funded from the unobligated balance.

Summary of On-Budget Request - Discretionary

Budget authority of \$157.1 million is needed to fund the administrative expenses and minor construction projects of the Housing programs in 2005. Administrative funding includes \$154.1 million for the Veterans Housing program, \$750 thousand for the Guaranteed Transitional Housing program, and \$571 thousand for the Native American Housing program. The funding will support 1,281 VBA FTE for the Veterans and Native American Housing programs, 41 FTE for the Office of the General Counsel and 3 FTE under General Administration for the Transitional Housing program. Funding for General Counsel and General Administration expenses for Transitional Housing are included in other services. The Office of General Counsel is reimbursed for its costs associated with initiating and responding to legal actions in state and federal courts arising under the housing and debt collection programs for the Veterans and Native American Housing programs. An appropriation for subsidy is not being requested for the Native American Housing program because the program has a negative subsidy rate in 2005.

Total Housing
Summary of Discretionary Appropriation Highlights
(dollars in thousands)

Discretionary	2003 Actual	2004		2005 Estimate	Increase (+) Decrease (-)
		Budget Estimate	Current Estimate		
VBA Housing FTE:					
Direct	970	1,000	956	885	-71
Information Technology	104	78	104	101	-3
Management Direction and Support	330	368	330	295	-35
Total Housing FTE	1,404	1,446	1,390	1,281	-109
Reimbursed FTE	42	49	44	44	0
Housing Administrative Expenses:					
Personal Services	\$90,469	\$100,174	\$97,184	\$95,836	\$-1,348
Travel	2,788	2,380	2,324	3,153	+829
Transportation of Things	555	337	301	337	+36
Rent, Communications & Utilities	14,881	19,277	13,495	14,831	+1,336
Printing	408	368	299	334	+35
Other Services ^{1/}	55,471	30,007	39,045	37,759	-1,286
Supplies and Materials	934	1,362	1,010	1,109	+99
Equipment	2,771	2,908	1,438	2,069	+631
Insurance Claims	3	0	8	8	0
Administrative Obligations ^{2/}	\$168,280	\$156,813	\$155,104	\$155,436	+\$332
Credit Reform, Native American:					
Loan Subsidy Obligations	\$0	\$8	\$70	\$0	\$-70
Unobligated Balance:					
Start of year	\$-2,347	\$-2,301	\$-2,347	\$-2,277	+\$70
End of year	\$2,347	\$2,293	\$2,277	\$2,277	\$0
Budget authority (net) ^{3/}	\$0	\$0	\$0	\$0	\$0
Obligated Balance:					
Start of year	\$0	\$0	\$0	\$1	+\$1
End of year	\$0	\$-3	\$-1	\$0	+\$1
Outlays (net)	\$0	\$5	\$69	\$1	\$-68
Capital Obligations:					
Major Construction	\$61	\$0	\$0	\$0	\$0
Minor Construction	\$1,050	\$1,728	\$2,027	\$2,121	+\$94
Total Discretionary Obligations	\$169,392	\$158,549	\$157,201	\$157,557	+\$356
Reimbursement from Franchise Fund	\$0	\$0	\$0	\$40	+\$40
Total Unobligated Balance: ^{4/}					
Start of year	\$-3,225	\$-3,785	\$-3,831	\$-3,452	+\$379
End of year	\$3,831	\$3,468	\$3,452	\$3,084	\$-368
Total Appropriation:					
Current Appropriation	\$171,105	\$158,541	\$157,749	\$157,149	\$-600
Appropriation rescinded, discretionary	-1,108	0	-927	0	+927
Total Appropriation (net)	\$169,997	\$158,541	\$156,822	\$157,149	+\$327
Total Outlays (net)	\$166,368	\$160,921	\$155,907	\$154,032	\$-1,875

^{1/} Reimbursements for General Counsel and Transitional Housing are included in other services.

^{2/} Includes amounts transferred to and merged with the "Administrative expenses" account from the Native American loan program and Veterans Housing loan program of \$167.7 million in 2003 and \$154.5 million in 2004. A total of \$154.6 million for these programs is included in 2005. Also included are funds transferred from the Medical Care account for the Transitional Housing Program in the amount of \$613 thousand in 2003 and \$600 thousand in 2004. A total of \$750 thousand for this program is included in 2005.

^{3/} No budget authority is needed because the obligations are funded from the unobligated balance.

^{4/} Includes major and minor construction and the Native American credit reform subsidy balance shown above

Total Housing Summary of Appropriation Highlights (dollars in thousands)					
Total Mandatory and Discretionary	2003 Actual	2004		2005 Estimate	Increase (+) Decrease (-)
Housing Program and Liquidating Accounts		Budget Estimate	Current Estimate		
Obligations:					
Liquidating Account	\$52,933	\$91,426	\$52,503	\$46,488	\$-6,015
Program Account	1,488,693	499,233	476,206	241,741	-234,465
Total Obligations	\$1,541,626	\$590,659	\$528,709	\$288,230	\$-240,479
Budget Authority:					
Mandatory, Program Account	\$1,319,302	\$331,034	\$309,355	\$74,534	\$-234,821
Mandatory, Liquidating Account	-60,000	0	-52,490	-42,502	+9,988
Discretionary Appropriation, Program Account	171,105	158,541	157,749	157,149	-600
Appropriation rescinded	-1,108	0	-927	0	+927
Total Budget Authority (net)	\$1,429,299	\$489,575	\$413,687	\$189,182	\$-224,505
Outlays:					
Liquidating Account	\$-61,218	\$42,305	\$-75,132	\$-42,502	+\$32,630
Program Account	1,471,286	501,605	484,469	238,216	-246,253
Total Outlays (net)	\$1,410,068	\$459,300	\$409,337	\$195,715	\$-213,622

Summary of Off-Budget Financing Accounts

Veterans Housing

The Veterans Housing Guaranteed Loan program has a negative subsidy rate in 2005 and will not require any subsidy to finance 300,000 Veterans Housing Guaranteed loans totaling \$40.6 billion. The \$43.8 million (on-budget) in Loan Sales subsidy for 2005 is the estimated cost to the Government to finance the sale of 12,104 loans totaling \$1.2 billion. A Veterans Housing Guaranteed Loan hybrid adjustable rate mortgage (ARM) demonstration project has been mandated for 2004 and 2005. The estimates for 2005 include the assumption that an estimated 10,000 of the loan guarantees will be for hybrid ARMs.

The Veterans Housing Direct Loan Program has a negative subsidy rate in 2005 and will not require any subsidy to finance 2,780 acquired (refunded) and 14,140 vendee loans totaling \$1.7 billion for 2005.

Transitional Housing

It is projected that Guaranteed Transitional Housing for Homeless Veterans will disburse three loans in 2005. The total amount of the three loans is estimated at \$20 million with a subsidy cost of \$9.7 million (on-budget) to be financed with remaining unobligated funds.

Native American Housing

The Native American Housing program has a negative subsidy rate and will not require any subsidy in 2005 for the 30 loans totaling \$3 million. Since this loan program has a negative subsidy rate in 2005, a loan level limitation is required by the Federal Credit Reform Act of 1990 in the Appropriation language. A \$30 million loan level limitation is requested to cover any unexpected increase in demand for this loan program.

Total Housing
Financial Summary for Credit Reform Financing Accounts
(Off-Budget) 1/
(dollars in thousands)

Financing Accounts	2003 Actual	2004		2005 Estimate	Increase (+) Decrease (-)
		Budget Estimate	Current Estimate		
Veterans Housing Benefit Program Fund:					
Guaranteed Loans:					
Obligations	\$1,971,900	\$3,584,279	\$5,363,550	\$3,713,232	\$-1,650,318
Collections	\$2,928,971	\$4,123,041	\$3,732,520	\$3,507,921	\$-224,599
Financing Authority (net)	\$-14,383	\$0	\$0	\$0	\$0
Financing Disbursements (net)	\$-967,265	\$-609,740	\$1,595,857	\$220,810	\$-1,375,047
Loan Sales Securities:					
Obligations	\$538,453	\$26,182	\$919,373	\$1,228,072	\$+308,699
Collections	\$387,552	\$43,183	\$816,523	\$1,280,248	\$+463,725
Financing Authority (net)	\$-5,166	\$0	\$0	\$0	\$0
Financing Disbursements (net)	\$150,901	\$-17,001	\$79,952	\$-52,176	\$-132,128
Direct Loans:					
Obligations	\$1,130,534	\$466,771	\$1,527,918	\$1,996,590	\$+468,672
Collections	\$1,297,691	\$378,476	\$1,116,790	\$1,641,293	\$+524,503
Financing Authority (net)	\$-173,425	\$126,794	\$190,695	\$355,297	\$+164,602
Financing Disbursements (net)	\$-167,363	\$99,027	\$383,596	\$322,826	\$-60,770
Guaranteed Transitional Housing for Homeless Veterans, Direct Loans:					
Obligations	\$0	\$20,358	\$20,247	\$20,793	\$+546
Collections	\$0	\$11,398	\$5,160	\$9,370	\$+4,210
Financing Authority (net)	\$0	\$8,961	\$15,087	\$11,424	\$-3,663
Financing Disbursements (net)	\$0	\$7,936	\$10,262	\$11,424	\$+1,162
Native American Veterans Housing, Direct Loans:					
Obligations	\$15,812	\$4,266	\$27,846	\$5,543	\$-22,303
Collections	\$10,662	\$3,701	\$6,385	\$7,154	\$+769
Financing Authority (net)	\$3,817	\$565	\$21,221	\$-1,610	\$-22,831
Financing Disbursements (net)	\$4,756	\$565	\$21,895	\$-1,610	\$-23,505
Housing Financing Accounts Totals:					
Obligations	\$3,656,699	\$4,101,856	\$7,858,935	\$6,964,231	\$-894,704
Collections	\$4,624,876	\$4,559,799	\$5,677,379	\$6,445,985	\$+768,606
Financing Authority (net)	\$-189,157	\$136,320	\$227,003	\$365,110	\$+138,107
Financing Disbursements (net)	\$-978,971	\$-519,213	\$2,091,562	\$501,274	\$-1,590,288

1/ Financing accounts are "off-budget" because they are excluded from the budget totals when calculating total government spending. The costs to the government for credit reform loan programs are included in the program account as subsidy.

**Total Housing
Workload Summary
(dollars in thousands)**

	2003 Actual	2004		2005 Estimate	Increase (+) Decrease (-)
		Budget Estimate	Current Estimate		
Veterans Housing Benefit Program:					
Liquidating Account:					
Property acquisitions	1,533	1,352	1,380	1,242	-138
Properties sold	1,519	1,343	1,367	1,230	-137
Properties on-hand, end-of-year	1,405	1,352	1,401	1,396	-5
Guaranteed Loans:					
Subsidy rate	0.81%	0.78%	0.50%	-0.32%	-0.82%
Claims processed	15,007	28,754	22,157	22,356	+199
Properties acquired	12,756	28,179	18,833	19,003	+170
Properties sold/redeemed ^{1/}	12,751	28,199	12,096	21,771	+9,675
Property inventory, end of year	10,291	19,675	19,908	20,046	+138
Number of guaranteed loans	508,436	270,000	350,000	300,000	-50,000
Amount of guaranteed loans	\$65,790,521	\$35,247,530	\$46,591,180	\$40,642,102	\$-5,949,078
Average loan amount (full dollars)	\$129,398	\$130,546	\$133,118	\$134,848	\$+1,730
Loan Sales Securities:					
Subsidy rate	5.06%	0.00%	5.65%	3.69%	-1.96%
Guaranteed loans sold:					
Number of loans sold	3,333	0	7,721	12,104	+4,383
Amount of loans sold	\$282,669	\$0	\$720,721	\$1,186,567	\$+465,846
Average loan amount (full dollars)	\$84,803	\$0	\$93,346	\$98,029	\$+4,683
Gross proceeds from sale	\$299,148	\$0	\$727,058	\$1,197,001	\$+469,943
Direct Loans:					
Subsidy rate	-1.39%	10.88%	-1.36%	-5.12%	-3.76%
Number of Loans::					
Vendees established	4,621	0	8,186	14,140	+5,954
Loans acquired	1,740	2,622	2,583	2,780	+197
Total amount of loans	\$555,296	\$284,035	\$1,090,076	\$1,692,117	\$+602,041
Average loan amount (full dollars)	\$80,911	\$108,328	\$101,224	\$100,006	\$-1,218
Specially Adapted Housing Loans	0	1	1	1	0
Specially Adapted Housing Grants:					
Number of Grants	515	600	615	615	0
Transitional Housing for Homeless Veterans Program, Direct Loans:					
Subsidy rate	0.00%	48.25%	48.25%	48.25%	0.00%
Number of loans established	0	3	3	3	0
Amount of loans established	\$0	\$20,000	\$20,000	\$20,000	\$0
Average loan amount (full dollars)	\$0	\$6,666,667	\$6,666,667	\$6,666,667	\$0
Native American Veterans Housing Program, Direct Loans:					
Subsidy rate	-8.96%	0.28%	0.28%	-7.75%	-8.03%
Number of loans established	120	30	250	30	-220
Amount of loans established	\$10,637	\$3,005	\$25,045	\$3,044	\$-22,001
Average loan amount (full dollars)	\$88,644	\$100,181	\$100,180	\$101,482	\$+1,302

^{1/} Property transfers to the property management contractor started on December 8, 2003 and were completed on January 12, 2004. Property sales were halted during the transfer resulting in lower annual sales.

Analysis of Mandatory Increases and Decreases - On-Budget

Outlays for mandatory programs in 2005 are currently projected to decrease by \$211.7 million from 2004. The decrease is mostly due to the implementation of the variable guaranteed default model that more accurately projects default rates over the life of the cohorts and results in a negative subsidy rate for 2005.

Analysis of Discretionary Increases and Decreases - On-Budget

In 2005, discretionary obligations are currently projected to increase by \$356 thousand. The \$1.3 million decrease in personal services is the net result of a payroll reduction for 109 FTE and an increase to fund the 2005 pay raise. The FTE reductions are the result of a contract being awarded to Ocwen Financial Corporation for the management, marketing and sale of all acquired properties. The \$1.3 million decrease in other services reflects a reduction in VBA-wide initiatives. The \$631 thousand increase in equipment is primarily associated with expenses needed to execute the restructuring effort that improves servicing of delinquent guaranteed loans. The \$1.3 million increase in rent, communications, and utilities is due to an increase in rental payments. A portion of the increase in travel of \$829 thousand reflects Loan Guaranty's requirement for continued property management contractor oversight. The \$70 thousand decrease in Native American Housing subsidy is due to a negative subsidy rate in 2005.

Analysis of Financing Increases and Decreases - Off-Budget

In 2005, total financing net disbursements (outlays) are projected to decrease \$1.6 billion in the five housing financing accounts. Net disbursements for the GLFA are estimated to decrease by \$1.4 billion to \$220.8 million. Obligations (negative subsidy, acquisition of homes, losses on defaults, property expenses, etc.) are currently projected to decrease by \$1.7 billion. Collections (cash sales of properties, interest on uninvested funds, fees, recoveries from DLFA, etc.) are projected to decrease by \$224.6 million. Net disbursements for the LSSA are estimated to decrease \$132.1 million to a negative \$52.2 million. The decrease is due to the net effect of a \$308.7 million increase in obligations (reimbursements to the DLFA for loans sales, payments to trustee for losses on loans sold, etc.) combined with a \$463.7 million increase in collections (subsidy, loan sale proceeds, interest on uninvested funds, refunds from the trust, etc.) that resulted from the reinstatement of the Vendee Loan program. Net disbursements for the DLFA are projected to decrease \$60.8 million during 2005 mostly due to the reinstatement of Vendee loans and therefore an increase in offsetting collections (loan sale funds from LSSA, principal and interest payments, fees, etc.) of \$524.5 million that is partially offset by an increase in obligations (negative subsidy, loan disbursements, property expenses, interest on Treasury borrowings, etc.) of \$468.7 million. Net disbursements for

Transitional Housing are projected to increase \$1.2 million for 2005 due to an increase in loan disbursements that is partially offset by an increase in subsidy collections from the program account. Native American Housing disbursements are projected to decrease \$23.5 million for 2005 due mostly to a projected decrease in interest rate refinancing loan disbursements.

Proposed Legislation

Legislation is being proposed to change eligibility for use of the veterans' housing benefit loan program. Service members who separate after the legislation is passed will be limited to one-time use. Five years after enactment, current veterans would be limited to one-time use of the loan program. Active duty military personnel will retain the ability to use the benefit as many times as needed. There are no costs associated with this program in 2005. Ten year costs are projected to be \$91 million.

Insurance Programs

Summary

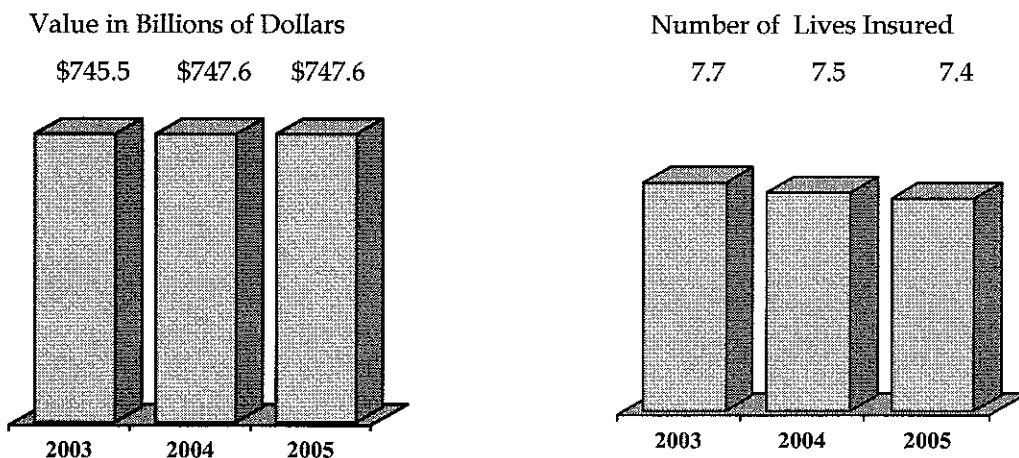
Life insurance protection for the Nation's servicemembers and veterans is provided under eight separate programs. Six of these programs are administered directly by the Department of Veterans Affairs and the remaining two are supervised through contractual agreement with Prudential Life Insurance Company of America through the Office of Servicemembers' Group Life Insurance (OSGLI). OSGLI administers the Servicemembers' Group Life Insurance (SGLI) and Veterans' Group Life Insurance (VGLI) programs.

The eight VA insurance programs are financed in a variety of ways. The Veterans Mortgage Life Insurance (VMLI) program is funded from the Veterans Insurance and Indemnities (VI&I) program. The VGLI program is funded by premiums and transfers from the (SGLI) fund. The VGLI is not included in the summary charts shown below. Veterans Insurance and Indemnities is a direct appropriation that supports the costs of insuring disabled veterans. Of the remaining six programs, three are public enterprise funds, two are trust funds, and one is a trust revolving fund.

The seven accounts listed below are covered in the following pages:

Appropriation:	Insurance
Public enterprise funds:	Service-Disabled Veterans Insurance (SDVI) Veterans' Reopened Insurance (VRI) Servicemembers' Group Life Insurance (SGLI)
Trust funds:	National Service Life Insurance (NSLI) United States Government Life Insurance (USGLI)
Trust revolving fund:	Veterans' Special Life Insurance (VSLI)

Total Insurance in Force



Summary of Budget Request- Mandatory

In 2005, the Insurance account will require an appropriation of \$39.4 million to finance its operation. Two million dollars of additional income is received from VMLI premiums.

Budget authority (permanent and indefinite) is made available automatically to the USGLI and the NSLI funds each year by virtue of standing legislation. All obligations of the VSLI and VRI funds are paid from offsetting collections and redemption of investments in U.S. Treasury securities. All obligations of the S-DVI fund are paid by transfers from the Insurance account Fund and other offsetting collections. No action by Congress is required.

Obligations of the SGLI program are financed entirely from premium collections, interest on investments, and redemption of U.S. securities.

Proposed Legislation from 2004 Budget

Insurance Service Technical Amendments

Amend the language of PL 107-14 to clarify certain points such as defining an insurable dependent, terms of coverage and premiums. It would also add a small group of inactive reservists for family coverage. There is no cost associated with this technical amendment.

Insurance
Summary of Mandatory Appropriation Highlights
(dollars in thousands)

		2004			
	2003	Budget	Current	2005	Increase (+)
Mandatory	Actual	Estimate	Estimate	Estimate	Decrease(-)
Lives Insured:¹					
Veterans (Administered Programs)	1,770,695	1,454,628	1,663,090	1,553,887	-109,203
Veterans (VGLI)	400,845	407,000	407,317	415,958	+8,641
Servicemembers (SGLI)	2,410,500	2,394,000	2,394,000	2,388,000	-6,000
Spouses and Children (FSGLI)	3,090,000	3,007,000	3,007,000	3,004,000	-3,000
Total Lives Insured	7,672,040	7,262,628	7,471,407	7,361,845	-109,562
Face Amount In Force	\$745,453,203	\$745,483,770	\$747,596,706	\$747,636,006	\$+39,300
Obligations:					
Death Claims	\$1,074,584	\$1,132,030	\$1,119,200	\$1,152,750	\$+33,550
Dividends	576,627	524,261	520,985	465,469	\$-55,516
Premiums Paid to OSGLI	646,492	532,070	531,102	529,670	\$-1,432
Transfers to Insurance Funds	21,230	22,517	22,615	32,250	\$+9,635
Payments for Administrative Expenses	36,308	38,922	39,387	40,215	\$+828
Capital Investments	102,255	116,630	99,470	99,750	\$+280
All Other Obligations	197,712	215,243	219,181	190,390	\$-28,791
Total Mandatory Obligations	\$2,655,208	\$2,581,673	\$2,551,940	\$2,510,494	\$-41,446
Funding:					
Offsetting Collections					
Premiums	\$103,914	\$99,280	\$101,293	\$101,850	\$+557
SGLI Premiums	646,492	532,070	532,070	530,710	\$-1,360
Interest on U.S. Securities	175,079	168,920	170,052	165,470	\$-4,582
Payments for S-DVI	20,417	21,167	21,545	31,190	\$+9,645
All Other Collections	481,099	468,010	460,770	422,096	\$-38,674
Total Collections	\$1,426,731	\$1,289,447	\$1,285,730	\$1,251,316	\$-34,414
Unobligated balance (SOY)	\$-12,028,526	\$-11,728,575	\$-11,791,949	\$-11,459,701	\$+332,248
Unobligated balance (EOY)	\$11,791,949	\$11,360,406	\$11,459,701	\$11,082,232	\$-377,469
Budget Authority, net					
Insurance Benefit Appropriation (VI&I)	\$27,530	\$29,017	\$29,017	\$39,380	\$+10,363
Trust funds	1,201,798	1,204,440	1,218,645	1,210,119	\$-8,526
Total Mandatory:					
Budget Authority (net)	\$1,229,328	\$1,253,577	\$1,247,662	\$1,249,499	\$-1,837
Outlays (net)	\$1,189,430	\$1,233,460	\$1,243,953	\$1,242,204	\$-1,749

¹ In this budget the Insurance program will depict lives insured rather than showing number of policies as in past budgets. This change is being made in order to more accurately reflect the people Insurance serves and the true scope of the insurance programs. Because some veterans in our administered programs have more than one policy, and because our supervised programs (SGLI, FSGLI and VGLI) are in fact only one "group policy", it is inaccurate to depict these programs as "policies in force".

Summary of Budget Request – Discretionary

Budget Authority of \$4.2 million is requested to fund the discretionary portion of the Insurance Program. The request will provide sufficient funding for: the administrative expenses of 513 FTE; the January 1, 2005 pay raise currently estimated at 1.5 percent as well as the associated level of fringe benefits; inflationary expenses; and capital obligations associated with our construction programs.

Combined budget authority, offsetting collections of \$40.2 million and unobligated balances will fund total obligations of \$44.7 million. Compared to the current 2004 estimate, total obligations are expected to increase by \$1.1 million in 2005. Total personal services increase by \$924 thousand, and minor construction costs increase by \$253 thousand. These increases are partially offset by a decrease of \$60 thousand in non-payroll costs.

Insurance Summary of Discretionary Appropriation Highlights (dollars in thousands)					
Discretionary	2003 Actual	2004		2005 Estimate	Increase (+) Decrease (-)
		Budget Estimate	Current Estimate		
FTE					
Direct	401	425	425	425	0
Information Technology	32	32	30	30	0
Management Direction and Support	60	58	58	58	0
Total FTE	493	515	513	513	0
Obligations:					
Personal Services	\$ 29,398	\$30,613	\$31,742	\$32,666	\$+924
Travel	199	220	220	221	+1
Interagency Motor Pool	8	10	10	10	0
Transportation of Things	5	13	13	13	0
Rents, Communications & Utilities	6,987	7,173	7,027	7,059	+32
Printing	86	85	82	82	0
Other Services	2,503	2,701	2,384	1,971	-413
Supplies and Materials	404	409	378	378	0
Equipment	439	1,486	1,478	1,798	+320
Total Administrative Obligations	\$40,029	\$42,710	\$43,333	\$44,196	\$+863
Capital Obligations:					
Major Construction	\$0	\$0	\$0	\$0	\$0
Minor Construction	\$ 188	\$206	\$206	\$459	\$+253
Total Discretionary Obligations	\$40,217	\$42,916	\$43,538	\$44,655	\$+1,117
Reimbursements	\$-36,308	\$-38,922	\$-39,387	\$-40,215	\$-828
Unobligated SOY	\$-441	\$-391	\$-629	\$-448	\$+180
Unobligated EOY	\$629	\$391	\$448	\$198	\$-250
Unobligated balance expiring	\$0	\$0	\$0	\$0	\$0
Transfers in from other accounts	\$0	\$0	\$0	\$0	\$0
Total Appropriation	\$4,097	\$3,994	\$3,971	\$4,190	\$+219
Outlays	\$3,191	\$4,202	\$3,800	\$3,979	\$+179

^{1/} P.L. 108-11, the Emergency Wartime Supplemental Appropriations Act, made available \$100 million of no-year funds to be used at the Secretary's discretion for veterans' needs associated with veterans returning from the Persian Gulf War Combat arena. The above chart reflects \$180 thousand transferred to VBA in 2003. Because of receiving the 2003 funding late in the fiscal year, \$180 thousand will be available in 2004 obligations.

Insurance Funds

Program Description

The following VA life insurance funds are explained below:

- ◆ United States Government Life Insurance (USGLI)
- ◆ National Service Life Insurance (NSLI)
- ◆ Service-Disabled Veterans Insurance (SDVI)
- ◆ Veterans' Reopened Insurance (VRI)
- ◆ Veterans' Special Life Insurance (VSLI)

The five insurance programs included under the Consolidated Insurance Funds group contain over 99.8 percent of those policies administered directly by VA. Each of these funds is operated in basically the same manner but there are some differences. The maximum amount of basic coverage available under any of these programs is \$10,000. However, under the NSLI, VRI and VSLI programs, policyholders can purchase additional protection by electing to use their dividends to buy paid-up additional insurance. The SDVI program is unique in that it insures veterans with service connected disabilities at standard premium rates and, therefore, requires an annual subsidy from the Veterans Insurance and Indemnities appropriation. Each program, excluding SDVI, participates in the distribution of annual dividends. Under each of these programs, except USGLI, waiver of premium protection is offered in the event of total disability at no additional cost. For an additional premium, total disability income provision policy riders are available under all of these programs except SDVI. USGLI policies contain a special provision whereby, in the event of total permanent disability, the policy may be matured and the insured receives the proceeds in monthly installments.

United States Government Life Insurance (USGLI)

The United States Government Life Insurance trust fund was established in 1919 to receive premiums and pay claims on insurance converted from the War risk term insurance of World War I.^{1/}

National Service Life Insurance (NSLI)

The National Service Life Insurance trust fund was established in 1940 to serve the insurance needs of World War II service personnel and veterans. Issuance of new policies ended in 1951. The trust fund is sustained through premium collections and interest on investments. This is the largest Government administered insurance program.^{1/}

Service-Disabled Veterans Insurance (SDVI)

The Service-Disabled Veterans Insurance fund is the only VA administered insurance program remaining open to new issues. It was designed as an insurance program for veterans with a service connected disability and provides coverage at standard rates. These individuals might not otherwise be insurable at standard rates due to their disabilities.

Since the fund insures the disabled at standard premium rates, it is not self-sustaining. Periodic payments from the Veterans Insurance and Indemnities appropriation are required to meet current expenditures.

Veterans' Reopened Insurance (VRI)

The Veterans Reopened Insurance fund was established on May 1, 1965 and closed on May 2, 1966. It offered veterans, who served between October 8, 1940 and January 1, 1957, the opportunity to obtain permanent life insurance coverage. This coverage was extended only to individuals with service connected or non-service connected disabilities who were either uninsurable or who could not qualify for standard rates and were not on active duty at the date of issue of the policy.

Veterans' Special Life Insurance (VSLI)

The Veterans Special Life Insurance trust revolving fund was made available for the payment of claims for the insurance program authorized for insurable veterans who served in the Armed Forces after April 24, 1951 and up to January 1, 1957.^{1/}

Servicemembers' Group Life Insurance (SGLI)

Formerly known as the Servicemen's Group Life Insurance fund, Public Law 104-275 renamed it the Servicemembers' Group Life Insurance fund, effective October 1, 1996. This fund provides insurance coverage for military personnel, reservists, members of the National Guard, Service Academy cadets and midshipmen, and certain ROTC students. Effective April 1, 2001, Public Law 106-419 increased the level of coverage to \$250,000. P.L 107-14 extended coverage to spouses and children of insured members effective November 1, 2001. The SGLI premium rate decreased to \$.065 per month per thousand of insurance coverage from \$.08 per month per thousand. VA supervises this program. Prudential Insurance Company of America administers it. The fund is entirely self-supporting, except for any costs resulting from excess mortality traceable to the extra hazard of duty in the armed services. It also reimburses the General Operating Expenses appropriation for VA's supervisory expenses.

^{1/} Authority for the payment of administrative expenses out of excess earnings in these funds is contained in the appropriations bill. This budget assumes that the payment from excess earnings will continue.

Summary of Insurance Programs 2005 (dollars in millions)									
	VI&I (VMLI)	NSLI (WWII)	USGLI (WWI)	VSLI (Korean)	VRI (WWII-Korean)	SDVI (Open)	SGLI (Open)	VGLI (Open)	TOTAL
Beginning Date	08/11/71	10/08/40	01/01/19	04/25/51	05/01/65	04/25/51	09/29/65	8/1/74	
Closing Date	Open to New Iss.	04/24/51	04/24/51	12/31/56	05/01/66	Open to New Iss.	Open to New Iss.	Open to New Iss.	
Lives Insured	2,620	1,176,698	8,846	178,151	45,226	142,346	5,392,000	415,958	7,361,845
Policies Inforce									
Term insurance	2,620	337,836	n/a	17,442	n/a	60,379	n/a	n/a	418,277
Permanent plans	n/a	859,686	9,050	188,725	52,764	102,635	n/a	n/a	1,212,860
Tot. policies inforce	2,620	1,197,522	9,050	206,167	52,764	163,014	5,392,000⁽¹⁾	415,958	7,439,095
Tot. value inforce⁽²⁾	\$173	\$13,154	\$28	\$2,459	\$484	\$1,574	\$683,702	\$46,062	\$747,636
Avg amt. per policy ⁽³⁾	\$66,031	\$10,984	\$3,064	\$11,927	\$9,173	\$9,656	\$276,102	\$110,737	
Avg age	53.1	80.3	87.7	73.5	81.2	58.6	30.0	44.8	
Annual death rate per 1,000	35.7	65.4	122.6	27.1	75.7	33.1	0.7	3.7	

(1) SGLI is a group policy; the number of policies equals the number of servicemembers, spouses and children (this figure includes 3,004,000 spouses and children).

(2) The total value of inforce includes paid-up additional insurance.

(3) The average amount of insurance is represented in whole numbers.

Summary of Selected Highlights 2005 (dollars in thousands)									
	Budget Authority (net)			Outlays (net)			Dividends		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
VI& I	\$27,530	\$29,017	\$39,380	\$27,958	\$29,841	\$39,380	0	0	0
NSLI	1,192,335	1,210,691	1,202,790	1,178,205	1,210,563	1,198,660	468,076	416,255	366,979
USGLI	8,506	7,970	7,349	9,525	9,469	8,855	2,299	1,860	1,560
VSLI				-43,404	-28,792	-23,103	88,817	87,700	83,570
VRI				15,065	18,371	21,143	17,435	15,170	13,360
SDVI				5,548	8,211	-2,711	0	0	0
Total	\$1,228,371	\$1,247,678	\$1,249,519	\$1,192,897	\$1,247,663	\$1,242,224	\$576,627	\$520,985	\$465,469
SGLI	957	-16	-20	-3466	5290	-20	0	0	0
Grand Total	\$1,230,285	\$1,247,662	\$1,249,499	\$1,189,431	\$1,242,373	\$1,242,204	\$576,627	\$520,985	\$465,469

Burial

Program Description

The Department administers a range of burial programs to benefit eligible veterans and family members. The responsibility for these programs is divided between two VA organizations. Cemetery programs and most in-kind benefits are administered by the National Cemetery Administration (NCA). Most monetary benefits and the burial flags program are administered by the Veterans Benefits Administration (VBA). The mandatory funding to provide these benefits is provided by the Burial Benefits Appropriation, while the discretionary funding to administer these benefit payments is provided through the Burial Administration Appropriation. The National Cemetery Gift Fund is a separate trust fund and uses financial donations from private donors for beautification and improvement of cemetery grounds.

The operations and maintenance portion of the Burial Appropriation funds the operation of 125 national cemeteries and 33 other cemeterial installations, as well as their maintenance as national shrines. It also directly funds the costs for NCA to administer four related programs: the State Cemetery Grant program, the Headstone and Marker program, the Presidential Memorial Certificate (PMC) program and Outer Burial Receptacle (OBR) reimbursements. Also included are administrative costs of VBA related to providing burial benefits to eligible veterans. The costs of producing and mailing the PMCs are also funded from this portion of the Burial Administration Appropriation.

Making burial options available to veterans requires the development of new national cemeteries, development of additional gravesites at existing national cemeteries, and establishment and expansion of state veterans cemeteries. New national cemetery construction, gravesite development projects, as well as national cemetery capital improvement projects, are funded from the construction portion of the Burial Administration Appropriation. The Grants for Construction of State Veterans Cemeteries portion of the Burial Administration Appropriation fund the establishment, expansion, and improvement of state veterans cemeteries.

The benefits portion of the Burial Appropriation funds the actual purchase and transportation costs for headstones and markers, graveliners, and pre-placed crypts. This portion also funds the cost of burial flags and the monetary burial benefits, including burial allowances, plot allowances, and outer burial receptacle reimbursements.

Summary of Budget Request - Mandatory

The Burial Benefits requests an appropriation of \$180,956,000 in 2005. This level of funding provides burial benefits on behalf of eligible deceased veterans and eligible deceased dependents.

<i>Burial Benefits Funding</i> (dollars in thousands)					
	2003 Actual	2004 Budget Estimate	2004 Current Estimate	2005 Estimate	Increase(+) Decrease(-)
Burial Allowance	\$32,918	\$36,606	\$35,062	\$35,802	+\$740
Burial Plot.....	18,537	20,484	20,713	21,215	+502
Service Connected Deaths.....	20,951	21,263	27,584	28,517	+933
Burial Flags.....	21,242	20,700	22,223	22,922	+699
Headstones/Markers/Allowances.	33,019	34,900	35,000	36,000	+1,000
Graveliners/OBR Reimbursements	15,813	23,300	25,100	36,500	+11,400
Total obligations	\$142,480	\$157,253	\$165,682	\$180,956	+\$15,274
Budget Authority	\$142,480	\$157,253	\$165,682	\$180,956	+\$15,274
Appropriation.....	\$142,480	\$157,253	\$165,682	\$180,956	+\$15,274
Outlays.....	\$142,480	\$157,253	\$165,682	\$180,956	+\$15,274

<i>Burial Benefits Workloads</i>					
	2003 Actual	2004 Budget Estimate	2004 Current Estimate	2005 Estimate	Increase(+) Decrease(-)
Burial Allowance	77,608	84,346	78,384	78,961	+577
Burial Plot.....	63,522	68,281	65,355	67,034	+1,679
Service Connected Deaths.....	13,019	10,631	13,355	13,811	+456
Burial Flags.....	483,564	559,463	493,854	498,296	+4,442
Headstones/Markers/Allowances.	341,033	323,000	338,000	341,000	+3,000
Graveliners/OBR Reimbursements	71,360	94,171	96,335	128,564	+32,229

Summary of Budget Request - Discretionary

Appropriation Highlights (dollars in thousands)					
	2003	2004		2005	Increase(+) Decrease(-)
	Actual	Budget Estimate	Current Estimate	Estimate	
Average Employment:					
NCA	1,476	1,588	1,588	1,611	+23
VBA	179	177	174	168	-6
Operations and Maintenance (O&M)					
Field Activities:					
Cemeterial Programs	\$99,421	\$113,378	\$112,154	\$113,945	+\$1,791
Memorial Programs	3,683	4,018	3,840	3,929	+89
Operations Support Center	4,051	4,601	4,230	4,980	+750
Headquarters:					
Central Office	17,721	16,833	18,960	20,291	+1,331
Memorial Service Networks	5,559	5,508	5,786	5,915	+129
VBA Benefits Administration	12,900	11,859	11,789	12,452	+663
Reimbursements (-)	-25	-135	-135	-135	0
Available Balance BOY	-222	0	-1667	-184	+1,483
Available Balance EOY	1667	0	184	184	0
Balance Expiring	429	0	0	0	0
O&M - Budget Authority	\$145,184	\$156,062	\$155,141	\$161,377	+\$6,236
State Cemetery Grants Program					
Grants - Budget Authority	\$31,792	\$32,000	\$31,811	\$32,000	+\$189
Construction					
Major Projects	\$53,450	\$54,444	\$56,111	\$56,000	-\$111
Minor Projects	23,548	22,413	22,281	25,000	+2,719
Construction - Budget Authority	\$76,998	\$76,857	\$78,392	\$81,000	+\$2,608
Total Budget Authority	\$253,974	\$264,919	\$265,344	\$274,377	+\$9,033
Rescission (P.L. 108-7)	1,652	0	0	0	0
Rescission (H.R. 2673)	0	0	1,575	0	-1,575
Total Appropriation	\$255,626	\$264,919	\$266,919	\$274,377	+\$7,458
Total Outlays	\$206,046	\$256,355	\$237,501	\$248,825	+\$11,324

The Burial Administration requests an appropriation of \$274,377,000 and 1,779 FTE for 2005. Of this amount, \$148,925,000 supports operations and maintenance costs of NCA, \$12,452,000 supports burial benefits processing by VBA, \$81,000,000 provides for construction funding, and \$32,000,000 supports the state cemetery grants program. This is a total increase of \$9,033,000 and 17 FTE over the 2004 level.

A total of \$161,377,000 is requested for operations and maintenance costs in 2005. This represents an increase of \$6,236,000 over 2004 and supports 1,611 FTE in NCA and 168 FTE in VBA.

Workloads continue to grow at existing cemeteries, and additional funding for 13 FTE, contract maintenance, supplies, and equipment is essential to maintain existing service levels. This is NCA's highest priority.

This budget reflects a shift in funding for projects to improve the appearance of cemetery assets. Maintenance and repair projects associated with gravesite renovation will be reduced by \$2.4 million and redirected to infrastructure improvements accomplished through the Minor Construction program.

This budget requests includes \$926,000 and 4 FTE to complete the activation of the new national cemeteries in the areas of Detroit, MI, and Sacramento, CA. These are the last two of the six locations for a new national cemetery identified in a May 2000 report to Congress.

For construction, NCA requests \$81,000,000 in 2005, \$56,000,000 in major projects and \$25,000,000 in minor projects. The major construction request includes funding for phase I development of a new cemetery in Sacramento, CA area; cemetery expansion and improvements at Florida National Cemetery (Bushnell, FL), and Rock Island National Cemetery, IL; and design funds for burial expansion and improvements at Riverside and San Joaquin Valley National Cemeteries, and for an annex to Fort Rosecrans National Cemetery at Miramar Marine Corps Air Station to serve the San Diego, CA area. Advanced Planning Funds are also requested for planning activities for 6 new national cemeteries to serve veterans in the Bakersfield, CA; Birmingham, AL; Columbia/Greenville, SC; Jacksonville, FL; Sarasota County, FL; and Southeastern Pennsylvania areas.

NCA requests \$32,000,000 to fund the grants for state veterans cemeteries in 2005. Demand for grant funding has increased as a result of the increase of the Federal share to cover 100 percent of the cost of construction and initial equipment.

National Cemetery Gift Fund

Program Description

Public Law 93-43, as amended, codified in 38 U.S.C. 2407, provides authority to accept gifts and bequests for the purpose of beautifying national cemeteries, or which are determined to be beneficial to such cemeteries. Public Law 100-322, Section 346(g), not codified, provides authority to accept gifts and bequests for the purpose of the operation, maintenance, or improvement of the National Memorial Cemetery of Arizona.

Fund Highlights (dollars in thousands)					
	2003	2004		2005	Increase(+) / Decrease(-)
	Actual	Budget Estimate	Current Estimate	Estimate	
Appropriation (permanent, indefinite)	\$78	\$180	\$180	\$180	\$0
Obligations	78	180	180	180	0
Outlays	144	180	180	180	0

Summary of Budget Request

The National Cemetery Gift Fund is a trust fund that uses financial donations from private donors for beautification and improvement of cemetery grounds such as landscaping, walkways, and benefits. The National Cemetery Gift Fund is not included as part of the Burial Benefits Appropriation. No appropriation action is required.

Program Activity

Fund obligations are estimated to be \$180,000 in 2005. The fund was established and began accepting gifts and bequests as of October 1, 1989. The fund is used primarily for beautification and improvements to the cemetery grounds such as landscaping, walkways and benches.